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## THE ECONOMY OF HONGKONG

(1841—1945)

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### SIZE & LOCATION

Hongkong ('Fragrant Waters') has a total area of only 390 square miles. This includes the island of Hongkong, 32 square miles<sup>1</sup>; Kowloon, the extremity of a peninsula on the mainland of China, 3 square miles; the leased New Territories, inland from Kowloon<sup>2</sup> and some other islands with an aggregate area of approximately 355 square miles. The Colony therefore consists of the principal island, some other islands and part of the main-

<sup>1</sup> The Island is about 11 miles long and 2.5 miles in width, its circumference being about 27 miles. It consists of an irregular ridge of lofty hills rising to a height of nearly 2,000 feet above sea level with few valleys of any extent and little ground for cultivation. The feet of the hills are in the sea. Beaches have been reclaimed in the city area but there is little scope for development.

<sup>2</sup> On the mainland a parallel range of much the same height as that of the main island rises no less steeply but with a wider margin of flat land along part of the coast. Behind this barrier are other ranges and a little to the westward two peaks exceed 3,000 feet in height. The New Territories include 75 adjacent islands most of which are uninhabited. In recent years the great value of the mountainous mainland has been that it provides, from a number of catchments and dams, much of the water which the urban areas of Kowloon and Hongkong so desperately need during the four dry months. In earlier times the peninsula was needed for the defence of the island and of the ships in the harbour.

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land of China. Kowloon, the tip of the peninsula, is within the Colony proper but the New Territories are held on lease from China to Great Britain for a period of 99 years from 1898.

Most of the island and the mainland is a series of steep and barren granite ridges with narrow valleys and small flat areas along the coast. All small patches of non-urban cultivable land are devoted to farming. The population of over one and a half million (in 1941) was concentrated along a few miles of the North shore of the island<sup>3</sup> and on the peninsula immediately opposite it (Kowloon). The urban area on both island and mainland is not more than 10 square miles in all.

<sup>3</sup> This city has been designated Victoria but it is more usually referred to as Hongkong.

This small territory is situated just within the tropics off the South Eastern coast of China and may be said to form the lower extremity of the left bank of the estuary or delta of the Pearl River. Some 90 miles upstream lies the large Chinese city of Canton in the Kwangtung Province while the Portuguese Colony of Macao is nearby, also in the delta.

The island is separated from the mainland by an almost land-locked harbour which is roughly a mile wide at the point where ferries run between the two urban areas of Victoria (Hongkong) on the island and Kowloon on the mainland. The Colony has a lengthy coastline and a land frontier with China proper. In fact Hongkong has been described as "in the full sense of the word, Chinese, though not China."

Located as it is on the edge of China, Hongkong's geographical situation makes it an excellent distribution centre for the trade of South China and its fine harbour is able to accommodate ships of all sizes and types. Its situation and facilities promote the transmission of goods and people through the Colony but the geographical factors which promote Hongkong's commerce tend also to reduce the effectiveness of administrative controls over such trade. Nevertheless, while its location mitigates against some aspects of government regulations, the smallness and compactness of the Colony on the other hand makes possible to a marked degree an exceptional measure of supervision by the public authorities.

### ADMINISTRATION

#### A. Early History

We are primarily concerned with the effects of government actions but a glance at the constitutional background may help as a guide to the economic foreground which is our main preoccupation. From the 26th January, 1841, when formal possession of the island was taken by Britain till the 25th December 1941, when the Japanese entered, the form of administration in Hongkong had changed superficially, almost beyond recognition, but fundamentally not at all.

The administration of 1841 was based on a 'Chief Superintendent of Trade of British Subjects in China' (Captain Charles Elliot R.N.) charged with the Government of Hongkong. From 1843 the Chief Superintendent was appointed the Governor and Commander-in-Chief of Hongkong, but while responsible for the affairs of the Colony each Superintendent continued



to act, till 1857, as the plenipotentiary of the British Government for the whole coast of China and the China Seas.

In July 1843, Executive and Legislative Councils, as required by the Royal Charter, were created but were confined to three official members. Seven years later, in June, 1850, the first two unofficial members were appointed to the Legislative Council.

The alterations and subsequent increases in the size of the Legislative and Executive Councils from time to time were developments towards self-government but the Governor's advisers were appointed and not elected. They were not at any time representative of the bulk of the population. For our purposes it is sufficient to note that Hongkong, despite a growing degree of advice from local organisations, was in 1841 (and still was a hundred years later) a part of the British Colonial Empire administered from London.

### B. The Constitutional Position in 1941

The constitution immediately prior to the Japanese occupation followed the usual British Colonial model of a Governor aided by the two Councils. Legally the Governor had sole control of the administration, legislation and finance of the Colony subject, of course to the final decision of the Colonial Office in London. The Executive and Legislative Councils were appointed not elected, were purely advisory and, in any case, had official majorities. From time to time in the Colony's stormy history this power of the Governor was exercised in no uncertain manner. In more recent years, however, the Governor had in practice exercised his legal powers with moderation and was greatly influenced by the wishes of the Councils. It was customary for the Governor to force through legislation against the will of the Councils only on the comparatively rare occasions when the Colonial Office insisted on the enforcement of a policy which was locally unpopular.<sup>1</sup>

The structure of the Legislative Council was similar to that of the House of Commons, but with the important exceptions that (a) its members, instead of being elected by constituents, were nominated by the Governor, (b) it was presided over by the Governor and not a neutral Speaker, (c) the votes of the official members were regulated by something much more stringent than a party whip, and (d) there was no Upper Chamber although there was a senior body (the Executive Council).<sup>2</sup>

<sup>1</sup> L. A. Mills, "British Rule in Eastern Asia" published by Oxford University Press, London, 1942 p. 396 says: "Legally the Governor is an autocrat, and when the Imperial Government decides that any policy must be adopted, legality and actuality coincide. This is far from being an everyday occurrence, and at other times the inhabitants of the Colony have much more power in reality than constitutional appearances would indicate."

The English Common Law, modified by Hongkong Ordinances and Chinese custom, formed the basis of the Colony's legal system.<sup>3</sup>

Legislation followed the usual course: The First Reading of the Bill with an exposition by the Introducer (usually the Attorney General), but no debate; an interval of a week or more, then the Second Reading after debate (if any) on general principles; Committee of the whole Council, the Governor remaining in the chair, considering the Bill clause by clause; Third Reading and Passing. Any Bill when passed went direct to the Governor for his assent and in due course to the King in London for non-disallowance.

Besides legislation proper there could be the usual questions and answers on government matters; motions on all sorts of issues; and laying on the table of papers of interest to the Council. Private Members' Bills were rare.

There were various committees of the Legislative Council of which the most active and most important was the Finance Committee which consisted of all eight unofficials under the Chairmanship of the Colonial Secretary. Besides the Chairman the only official Members were the Financial Secretary and the Director of Public Works, so that the unofficials had normally a very large influence over all financial matters. Besides the Colony's annual Budget this Committee considered a large number of supplementary votes for urgent items not included in the various Departments' approved estimates. In normal times meetings, like those of the Legislative Council itself, were held in public and reported in the local *Hansard*, the official Gazette and the local press.

In latter years the Colony's laws had become so far settled that the great

<sup>2</sup> The official Members of the Legislative Council were the Senior Military Officer, the Colonial Secretary, the Attorney General, the Secretary for Chinese Affairs and the Financial Secretary, all ex officio. Besides these there were four other official Members, heads of departments selected arbitrarily by the Governor for this office. In addition to these nine officials there were eight unofficial Members, all appointed by the Governor, generally three of Chinese race and one Portuguese. Of the remaining four (British of European race) one was nominated by the whole body of Justices of the Peace and one was nominated by the general Chamber of Commerce but even these nominations were subject to the approval of 'Downing Street.' (The London Street in which the Colonial Office is situated.)

<sup>3</sup> L. A. Mills op. cit., pp. 380-381 says: "The British have evolved a *modus operandi* which might be defined as Anglo-Chinese co-operation based on mutual explanations and persuasion and on respect, wherever possible, for Chinese wishes and customs. Where compromise is impossible the population is required to obey; but the administration has often modified Western standards and, above all, has tried not to move too far in advance of Chinese public opinion."

majority of the Council's work, apart from current finance and occasional criticisms of the administration, consisted of amending and consolidating existing Ordinances.

More important than the Legislative Council, was the Executive Council which, under oath of secrecy, met at least once a week besides deciding a multitude of questions by the circulation of locked bags. Its normal composition was the five ex-officio officials already mentioned as being on the Legislative Council, plus one other official selected by the Governor, plus three unofficials one of whom had latterly been of Chinese race. The Executive Council combined the dual functions of the British Cabinet and Privy Council. In the latter capacity the Governor in Council passed numerous Regulations (equivalent to Orders in Council) strictly within the scope of 'enabling' clauses in Ordinances which had been passed by the Legislative Council. On the other hand the Executive Council was, like the Cabinet, consulted by the Governor on all important questions of policy, and its prior approval was needed before the introduction into the Legislative Council of all Government Bills.

There were in normal times about twenty government departments of varying size and importance. The head of each was expected to comply with Colonial Regulations, particularly on the financial side, to look after the discipline and well-being of his staff, to prepare his budget requirements a full year ahead and above all to ensure that the public was adequately served. Innovations could be introduced in various ways:—If of minor importance and within the corners of his estimates he would be expected to proceed on his own initiative; questions of policy would be referred to the Colonial Secretary who either submitted them to the Governor or approved (or disapproved), "by command" for the Governor; major points of policy would be referred to the Executive Council by the Governor. If either new legislation or financial provision were required, this perforce went down to the Legislative Council in the form of a draft Bill or for inclusion in the Estimates or for immediate Supplementary Vote. There was also an Urban Council, of which the head of the Sanitary Department was, ex officio, chairman. This Council's functions and authority were more restricted than its title suggested and were subordinate in many respects to the executive authority of government. Even the Council's power to originate subsidiary legislation in matters concerning public health and conservancy was subject to confirmation by the Legislative Council.

### C. The Japanese Occupation

Hongkong fell to the Japanese Army on the 25th December, 1941, and remained under Japanese administration for three years and eight months. At a stroke the British administration was superseded and almost the entire British population, with the exception



of a handful of medical personnel, was interned in camps and was guarded as close prisoners. Many Europeans of Allied countries were similarly treated but most non-Europeans were allowed comparative freedom of movement and employment unless they were suspected of being opposed to the Japanese.

The Japanese governed by martial law under a military administration but they also set up councils which acted in an advisory capacity. Immediately after the occupation of the Colony a Hongkong Rehabilitation Committee was appointed by the General Officer Commanding, Sakai, and the chairman of this committee was in fact the senior member, Sir Robert Kotewall, of the Chinese community on the British Executive Council which had just been supplanted. Sir Robert, (in giving evidence at the trial of a Japanese, Colonel Noma Kenosuke, in January, 1947) stated that he had accepted this and later positions under the Japanese at the request of senior British officials who had told him to co-operate with the Japanese authorities for the sake of the Chinese community.

In March, 1942, a new Japanese Governor, Lieutenant-General Isogai arrived in Hongkong and the Rehabilitation Committee was succeeded by two bodies, a Chinese Representative Council and a Chinese Co-operative Council. The function of the Representative Council was to act as an intermediary between the Japanese Government and the Chinese community, and according to its constitution the members were to report to the government, when directed, the aspirations and opinions of the Chinese people and to explain to the Chinese community the wishes and orders of the Japanese Government. The Representative Council was expected to understand the requirements of the Chinese public through the means which the individual members of the Council had of ascertaining public opinion, and also through the Co-operative Council.

This second Council composed of representatives of various Chinese interests such as shipping, banking, run on Western lines, native banking, education, public health, labour and general interests of the public. Each member of the Co-operative Council besides his general duty to the public as a whole was expected to ascertain the wishes of the particular section he represented. When there was any representation or complaint to be made each man would bring up such representation or complaint at a meeting of the Co-operative Council and the minutes of such deliberations were forwarded to the Representative Council. Such matters were then taken up by the Representative Council with the government either at a Governor's meeting or at a meeting with the head of the Civil Affairs Department or with the head of the Gendarmerie. The functions of the Co-operative Council were, therefore, similar to those of the Representative Council, mainly acting as intermediary between the government and the Chinese community with the exception

in procedure that the representations of the Co-operative Council had to go through the higher Council.

Recent trials of collaborators and Japanese officials have revealed actions, often horrifying, of the administration.

The Japanese authority in Hongkong remained supreme for three years and eight months until 15th August, 1945, on which day the Japanese Emperor issued his rescript calling upon his armed forces to lay down their arms.

#### D. Hiatus

Major political change is usually clear-cut and decisive but the handing over of the Japanese administration to a British one proved to be an exception to the rule.

Japan surrendered so much earlier and more suddenly than the most optimistic of allied planners had anticipated that there was a fourteen day delay between the date of the Japanese surrender and the occupation of the Colony by an allied military force. During those days there was some doubt as to whether the first troops to arrive in force would be the advance guard of Generalissimo Chiang Kai-shek's Chinese army, General MacArthur's South West Pacific forces which were mainly American, or the British armies of Admiral Mountbatten's South East Asia Command. In fact units of the British Pacific Fleet were the first to arrive and they set up a military administration.

In the hiatus period the Japanese authorities withdrew their guards over internment and prisoner of war camps and a number of officials of the 1941 administration accompanied by key personnel of essential service and public utility companies proceeded to Hongkong and for a brief uneasy period governed the Colony while the Japanese army kept order.

#### POPULATION

The population of Hongkong rose from 7,450 persons at the first census in 1841 to approximately 1,639,000 in March 1941. The growth over the years may be seen from following figures:

1841 .....	7,450
1861 .....	119,321
1881 .....	160,402
1901 .....	300,660
1921 .....	625,166
1941 .....	1,639,000

With only minor checks in a few odd years the population of Hongkong rose rapidly over the century under review. If spread evenly over the Colony's 390 square miles, a population of 1,639,000 gives a density of some 4,200 persons to the square mile. But the population was concentrated in the twin cities of Victoria on Hongkong island and, facing it across the harbour, Kowloon on the mainland. The population in Kowloon which grew rapidly into a new business centre more than doubled between 1921 and 1931 and this high rate of increase was, of course, continued during the abnormal population growth of

the late thirties. The overcrowding of the city areas is reflected in the Colony's housing problem.

Racially Hongkong was at all times overwhelmingly Chinese. Prior to 1906 the proportion of non-Chinese occasionally reached more than five per cent of the total population but after that date there was never five per cent of non-Chinese persons in the Colony. During the late thirties the proportion fell until, in 1941 the population was made up as follows:—

American .....	400
British .....	8,000
Chinese .....	1,615,000
Indian .....	7,400
Portuguese .....	2,900
Other Europeans ...	2,900
Miscellaneous .....	2,100

It will be seen that, at this time there were over 98 Chinese for every 2 non-Chinese. As nearly half the non-Chinese were Indians, the percentage of Europeans in Hongkong in 1941 was barely one. 1941 was, however, an abnormal year. Most European womenfolk had been evacuated from the Colony as the threat of invasion became greater. The percentage of Europeans had been higher in all previous years. Nevertheless it was always low.

Variation in population in Hongkong was much more dependent on immigration and emigration than on births and deaths. From the earliest days of the Colony, Hongkong was a field of free immigration for the Chinese and also the gateway of overseas migration in particular southward to Malaya. There was no restriction on the movement of non-Europeans to and from the Colony and changes took place on a very large scale whenever the relative conditions in China and the Colony varied. At all times of political and economic distress in China there were great pulsations of immigration. Moreover, prosperity in Hongkong always brought an influx of immigrants attracted by the prospect of better wages than were obtained in China, while conversely, depression or illness in Hongkong led to the departure of unemployed back to their home villages.

With the insecurity that prevailed in China for many years and the growing tendency of the Chinese to bring their wives with them, the number of Chinese permanently settled in Hongkong tended to increase, but nevertheless a large majority of the Chinese population was always migratory. In 1931 the census figures showed that almost a third of the Chinese population had been born in Hongkong and were therefore British subjects, though according to the National law of China they were also Chinese. The number of these who considered themselves as settlers and regarded Hongkong as their permanent home increased very rapidly in the last decade. Of the urban Chinese in Victoria and Kowloon in 1931, 38.5 per cent had been over 10 years in the Colony, under 16 per cent over 20 years, and 6.4 per cent over 30 years.



The non-Chinese inhabitants, also, treated Hongkong as a temporary domicile. In 1931, 8.5 per cent only had been residents for over thirty years. It was exceptional for a British-European family to remain in the Colony longer than the period during which one or more of the family was actively employed locally.

The vast flow of people through Hongkong is illustrated by the following figures:

Year.	Persons leaving Hongkong	Persons entering Hongkong
1931 ..	2,796,222	2,881,479
1932 ..	2,827,449	2,975,258
1933 ..	2,712,389	2,787,436
1934 ..	2,811,100	2,789,039
1935 ..	3,412,020	3,347,473
1936 ..	2,987,772	2,977,205
1937 ..	2,216,824	2,341,793
1938 ..	1,952,212	2,057,084
1939 ..	1,883,802	2,099,474

As the average population during these nine years was less than one million and on the average more than two million and a half people left and similar numbers entered each year, the scale of migration is seen to be huge. And even these stupendous figures record probably less than half the number of persons who actually came into the Colony and went out of it in each year as the official figures excluded those who travelled by junks without being included in the official returns and of even greater importance, the figures neglected all train passengers. This latter figure alone, for 1936, was some 1,740,000 persons and for 1937 approximately 1,702,000. A recent example of the effect of these omissions is to be seen in the official population figures after 1937. The influx of refugees during 1937 and 1939 was estimated to be in the region of 600,000. (The official population figure jumped from an estimated 1,072,000 in December 1940 to 1,639,000 at the census taken in March 1941.)

## COST OF LIVING.

### A. Incomes.

The social structure followed the pattern of modern capitalist countries and could be classified into labourers, middle-class, and upper class but, as in other Eastern and Colonial Territories, the classes were complicated because of income differences between Europeans and non-Europeans. There were at least four major income groups: Labourers who were all non-European; a non-European middle-class; a European middle-class; and an upper class which was partly European but included many extremely wealthy Chinese.

It is, of course, artificial to limit the social groups to four but by this means it may be possible to give a better indication of conditions in the Colony than by the simplification of describing only the two opposite groups of poor and wealthy. On the other hand the position would become too complicated if every grade were

described. For instance, the labourers' group could be subdivided into skilled, semi-skilled and unskilled; the middle-class into skilled artisans, clerks, shopkeepers, officials, professional and small business men.

It is sufficient, however, for our purposes to consider very briefly the incomes of the four groups already mentioned.

### (i) Labourers.

Although the extremely low standard of living of working people in every part of the East is a matter of common knowledge it is necessary to stress the acute poverty of the great part of Hongkong's population. The level of wages of the vast bulk of people is a matter of vital interest to a government which is concerned with the economic foundations of its country. On wages and productivity rest the costs of production and on these costs the prosperity or failure of the community are based. The economy of Hongkong, in common with other Eastern countries, was built up on cheap wages.

The following wage scales in 1939 show the average rates for certain types of labourers:

Female Factory Workers (Cigarette Factories)	
Factories	..... .30 to .70
Carpenters	..... .80 to 1.30
Transport Coolies	..... .60 to .70
Tram Drivers	..... 1.20 to 1.50
Electricians	..... 1.00 to 1.40

These wages were for a day of about nine hours and in some cases included lodging. They may be roughly summarised in the generalisation that the daily rate in the Colony was close to the hourly rate in Britain.

Although accurate statistics for earlier years are very difficult to obtain, the low levels of 1939 were apparently higher than was the case twenty years earlier; but even the low nominal wage rates give but a part of the actual position which was described by the Housing Commission of 1935 in the following words:

"Hongkong is a powerful magnet drawing to itself not only the seekers after work but hangers-on and parasites of all kinds. The struggle for existence is very severe. It is only too common, especially amongst unskilled labourers, to find three men doing the work of one and sharing remuneration which might be adequate for one but is certainly insufficient for three; while the regular employee is fortunate if he is not maintaining a number of relatives out of his earnings. The system of contracting and sub-contracting is often carried to extreme lengths, and results, in many instances, in the inability of the final sub-contractor to pay even the low wages on which he has based his contract. Still more reprehensible is the system by which individuals or organisations levy commission in return for introduction to employment, or exact blackmail in the guise of 'fees for protection against

competition.' Conceivably the various systems by which the proceeds of every piece of work tend to filter through to the largest possible number of individuals might be regarded as an elementary form of practical socialism, without which the even more serious problem of complete unemployment of a large part of the population would have to be faced. We believe that there is no escape from one problem or the other so long as an enormous reservoir of population exists at our door, unless it is a remedy which presents very serious difficulties, namely, restriction of immigration".

These words were written before the tremendous influx of refugees which raised the population from roughly one million in 1937 to approximately one and three quarter millions by mid-1941. Fortunately for the large numbers who lived on the bare minimum necessary for subsistence, these years saw a large increase in industry in Hongkong and a consequent growth in the numbers employed. Nevertheless a large section was without regular employment

Daily Wages in H. K. Dollars.	Daily Wages in Sterling.
4½d to 10½d	1/- to 1/7½d
9d to 10½d	1/3d to 1/7½d
1/3d to 1/9d	

and existed on the verge of starvation.

It could not be expected that such poorly paid labour was as productive and efficient as European or American with so much higher living standards. The industry of Hongkong was based on very poorly paid labour with a comparatively low output.

### (ii) Middle-class Non-Europeans.

The white collared Chinese clerical workers received, taking the railway booking clerks as typical, a salary of \$600 to \$1,000 per annum in 1939. In sterling this represents about £63 per annum or roughly double the wage of the manual worker. This ratio is not dissimilar to that between manual and clerical workers in other countries and the parallel is to be seen also in the comparative customary standards of living.

The wages of the non-European clerk reflected a standard of living which was higher than that of the manual worker but which, like the labourers, was very much lower than the Western level. The lower salaries were again reflected in a tendency towards lesser output than the European average.

The middle-class included persons in a wide range of occupations and in receipt of very divergent incomes. Within this group we are including teachers, journalists and shop keepers. To emphasize the disparity in income between Chinese carrying out these operations in Hongkong and persons in equivalent positions in other coun-



tries it is sufficient, perhaps, to quote one example. The apparent margin of profit taken by many retail shop keepers was sometimes nil. It was not unusual for retailers of pharmaceuticals and groceries to sell some of their wares at the same price at which they received them from the wholesaler. The retailer was content to carry out his functions and receive only the profit on selling the case in which the goods were delivered in bulk to the shop.

### (iii) Middle-class Europeans.

As has already been said, since 1906, the total number of non-Chinese in Hongkong had not reached 5% of the population and in the late thirties the percentage fell until, in 1941, the average was less than 2 non-Chinese to 98 Chinese. Of this two percent nearly half were Indian or other non-Europeans so it is no exaggeration to say that, in 1941, Europeans made up less than one percent of the population.

As in other Eastern and Colonial countries, the small number of middle-class Europeans received very much higher salaries than those of the middle-class Chinese. Most of the top positions in government and business were filled by Europeans and it is probably a safe generalisation to say that the real salaries of the middle-class Europeans were about double the amount which was received for work of an equivalent grade in the countries from which the recipients came. There were no doubt exceptions to this rule. For instance, married men with families had often to maintain two homes while their children were being educated abroad and such abnormal expenses negated the advantages of a high gross income. The custom of employing more servants in the tropics had a similar influence. Real income was augmented by the absence of income tax and the low cost of many goods and services but the incomes were usually spent rather than saved because of the high customary standard of living.

### (iv) Upper Class.

The taipans (or big business men) of Hongkong were largely European but there were always a number of very wealthy Chinese who made their home in the Colony. Vast fortunes were made during the Colony's stormy century of growth although much money was lost from time to time. In good years the taipan's incomes have been very large and new firms have grown from small beginnings, but world influences and crises in China have often been reflected in serious local depressions and old established firms have been forced into liquidation.

### B. Prices.

Real income depends as much on the prices of those things which are normally consumed as on nominal incomes. Each of the four main income groups had a very different range of customary expenditure. It is sufficient for our purpose, however, to mention

briefly the importance of rice to the Chinese population, to note some price tendencies during the century, and to examine price movements over the decade immediately prior to 1941.

Rice is the most important foodstuff to all the non-Europeans in Hongkong and the price becomes of greater importance as we descend the income scale. In the upper class, fabulous sums were spent on foodstuff of infinite variety and in colossal quantities. A typical formal Chinese dinner was never less than ten courses and in the 'good old days' a single meal sometimes required three months to prepare and lasted for about three days. Annually the Chinese New Year has been celebrated by a series of feasts spread over about five days.

At the other extreme the labourer lived on rice and if he could afford it he ate about a catty (1-1/3 lbs.) each day. Rice absorbs twice its weight of water when being cooked so that a consumption of one catty of dry rice means the eating of nearly four pounds of boiled rice. His rice might be seasoned with a little vegetable or he might sometimes be able to afford a small piece of egg, meat or fish, but his basic food was rice. Although it is an over simplification, there is much truth in the often heard remark that wages in Hongkong fluctuated with the price of rice and that on the cost of this one item, movements in wages could be regulated.

A most important aspect of price movements within Hongkong was the effect of the Colony's large international trade on its local prices. The population of Hongkong was small in relation to the volume of goods which passed through the Colony and sudden changes in demand or supply in other territories often produced considerable local price fluctuations, but only rarely lead to even temporary shortages. Price variations in Hongkong might be accentuated by a shifting population which might or might not be connected with the price movements (migration resulted from reasons of health, politics or war as well as booms and slumps) but Hongkong was so dependent on conditions in importing and exporting countries that prior to 1945 it was thought doubtful that internal price movements could be effectively insulated from outside influences for any long period even if this were desirable.

Prices in terms of local currency rose steadily over the century to 1941. Although prices in general rose the movement was not an even one. In 1900, for instance, there was discontent in the European community at the rising cost of staple foods. The salaried workers complained that prices had risen but that there had been no corresponding movement of wages. A Commission of enquiry was appointed and reported that there had been a rise in retail prices ranging from 20 to 100 per cent over the previous five years. The Commission decided that the reasons for these increases were:

(i) Depreciation of silver which, by reducing the value of the currency had increased all prices.

(ii) Higher cost of rice which, as a basic commodity, led to higher wages which were in turn passed on to the consumer in higher commodity prices.

(iii) West river piracy increased the cost of supplies imported from the neighbouring parts of China.

(iv) Increased rents payable by stall holders who sublet from those who rented from the government.

(v) The enforcement of the sanitary laws which, by condemning as unfit for human consumption sick animals, increased the price of good meat.

(vi) The augmentation of the military and naval forces in Hongkong and Manila as the sources of supply were limited and took time to accommodate themselves to increased demand.

The report of the Commission was an unsatisfactory document. It revealed discord between the members and the Chairman; it gave no statistics in either 1895 or 1900; it gave no detailed evidence in support of its general conclusions; it appeared to spend its energies almost entirely on one commodity—meat; and "bearing in mind the many objections to legislative interference in trade affairs", its recommendations were confined to rather limited objectives.

The six reasons given by the Commission for the rise in prices were not supplemented by detailed evidence within the Report but represented the considered views of the Commission. We are led to wonder why they were more applicable to the period 1895—1900 than to almost any other time between, say, 1870 and 1900. During the shorter period the value of the currency, as reflected in the exchange rates had remained fairly steady at about 21/- between 1895 and 1900. The variation of one or two pence was nothing when compared with the steady fall from 4/4 in December 1870 to 2/- in December 1894. The Commission gave no evidence to show why the increased cost of rice had led to greater increases in the cost of other commodities nor did it explain why the cost of rice had risen. Piracy was a common-place during the whole of the nineteenth century and was no more in evidence during the five years covered by the Commission than in earlier periods. The Commission reported in the evidence taken that the rentals of stalls was a small item in the cost of meat and vegetables while the Veterinary Surgeon ridiculed the suggestion that the price of meat was increased because of the many animals he was said to reject as unfit for consumption. He stated that cattle which were rejected at the slaughter house were sent to the New Territories where they were killed and the meat then sent back to Hongkong for sale. The increased military establishment could have been a factor as the non-Chinese population rose from 10,800 in 1895 to 14,800 in 1900 but this rate of increase is not greater than that of some earlier years.

However, the fact that a Commission was appointed shows that prices



had been rising appreciably and the causes given may well be the correct ones although, from this distance, we may be inclined to say that the reasons held good, and with greater weight, over a very much longer period than the five years covered by the Commission.

By 1939 the prices of staple foodstuffs, in terms of local currency (which had depreciated heavily from 5/- in 1932 to 1/3d in 1939) had risen by roughly three times as the following table shows.

Article	Price in 1941 —(cents per catty)—	Price in 1939 —(cents per catty)—	Percentage of 1939 prices to 1941 prices
Rice (1st Grade) ....	3½	10	286
" (3rd Grade) ....	2½	7	280
Beef .....	12	35	292
Pork .....	16	54	337

Foodstuff prices over the decade from 1930 to 1940 fluctuated to a surprising extent. The price of third grade rice fell from 9.2 cents a catty in 1930 to 4.9 cents in 1935 and rose to 10.0 cents in 1940. Fresh fish was about 26 cents a catty in 1930; 31 cents in 1932 and 1933; 21 cents in 1936 and 56 cents in 1940. Price movements of salt fish, beef, pork, oil, and firewood were equally substantial.

It might be said as a very rough approximation that the price of rice was somewhere in the region of one fifth of the price of bread in Britain and it has been estimated that the workers of Hongkong received about one eighth of the wages of British workers. (Other foods were also relatively cheaper in Hongkong than in Britain but these other foods were comparatively unimportant to the lowest income groups as they could afford very little more than rice.) On this very rough and ready basis it seems no exaggeration to state that the real as well as the nominal wages of the Hongkong workers were very much below the British level.

During the Japanese occupation prices rose to very high levels and the standard of living fell, in cases, below the minimum necessary to support life. The price of rice reached Japanese Military Yen 270 per catty by August 1945. This compared with Military Yen 0.10 in the first half of 1942. Pork rose to Military Yen 150 per catty as compared with HK\$0.81 in 1940. The astronomical figures at the time of liberation must have put foodstuffs beyond the reach of the average wage earner.

Firewood was said to have been rationed to the public through a number of authorised sales depots until July 1944. The quota was 10 catties per week to each holder of a rice ration card. The prices were said to have been:—

Date	Official price (M.Y. per picul)	Unofficial price (M.Y. per picul)
August 1943 ....	21	25
April 1944 ....	25	40
July 1944 ....	35	70
August 1944 ....	"	120
December 1944 ..	"	230
January 1945 ..	"	300

The increase in the black market price after rationing ceased was apparently four times in about six months.

The reduction in Hongkong's population gives stark evidence of the effect of prices on the standard of living. Conditions during the Japanese occupation were so abnormal that they need not be over emphasised in any work devoted to long range problems. When considering the immediate post-war period the effects of the occupation are, however, of great weight.

### C. Housing.

Although a very large number (approximately one tenth in 1941) of the Colony's people lived afloat in junks and sampans<sup>1</sup> there was an acute shortage of housing for many years. The population was concentrated by the rugged topograph of the island and its adjacent peninsula into a small and strictly limited space. The ever growing congestion of the two main urban areas—Victoria and Kowloon—presented an almost insoluble social problem. The perpetual housing shortage was bound up not only with the limited area of the Colony but also with the proximity of China where low standards of living prevailed, and resulted in a recurrent inflow of immigrants. Living conditions of the sea-borne population were primitive and over-crowded beyond European experience, and the same appalling overcrowding and lack of facilities for even the barest comfort existed on land. To quote the Official Medical and Sanitary Report for the year 1930 (p. 9): "The position today is that (on the island) 500,000 people are being accommodated in an area not exceeding 400 acres in extent where the streets are narrow and the houses four and five stories high. The density is 1,250 to the acre. The people are packed together in the houses like steerage passengers on emigrant ships. In some cases there are tiers of bunks placed against the walls as in the old fashioned ships, in others the rooms are divided into cubicles or cabins each measuring perhaps eight feet by eight feet and having partitions 6 feet in height. These cabins are not the temporary abodes of persons on a voyage but the more or less permanent homes of the

people. There is little or no room for kitchens, and latrine accommodation is limited to pail closets on the roofs of the buildings." These conditions were described more fully in the Administration Report 1937 pp. 12-13 in the following terms: "The housing of the Colony is all privately owned, and control is maintained by the operation of the Buildings Ordinance, 1935, the provisions of which also mould the character of housing. Generally the houses are built back to back in rows and are separated by a scavenging lane. These houses vary in height from two to four storeys according to the width of the street on to which they front, whilst the average height per storey is twelve feet. The house built prior to the 1903 Ordinance covering the greatest part of the native quarter are of depths varying from forty feet to eighty feet, with often less than 100 square feet of open provided within the curtilage of the lot. On plan the usual frontage of each house is fifteen feet (a dimension owing its origin more to early structural limitations than to economics) and a depth of about thirty-five feet, whilst each storey consists of one large room with a native type kitchen in the rear. This room is then subdivided by thin partitions seven feet high into three cubicles, each of which may accommodate a family. A latrine is built at ground floor level, one to each house irrespective of the number of occupants, and is common to all. Even in the latest types of tenements only one latrine per floor is provided to serve ten or twelve, or, in over-crowded houses, many more adults. The normal tenement possesses no means of providing heat in cold weather."

In 1935 a Housing Commission was set up and presented a report in 1938. The report revealed that there was an acute shortage of houses; that the major part of the population lived in Chinese-type tenement houses which were built back to back in rows separated by narrow scavenging lanes; that the tenements varied in height between two and four storeys and the poorer section of the population was housed in the upper floors. The report estimated that there were between 100,000 and 110,000 families with an average of six persons to each family and that to house between 600,000 and 660,000 persons there were about only 75,000 tenement floors in Victoria and Kowloon.

In 1939 the density of population in the closely-packed 211 acres of the central portion of Victoria was officially estimated to be 917 persons to the acre, and it was estimated that in certain parts of the waterfront the density reached a maximum of 2,000 to the acre. Even these are grave underestimates as they made no allowance for the refugee population.

But overcrowding was not due simply to the dearth of houses. The Housing Commission of 1935 said that whilst the latest type of tenement was healthy enough if each floor were occupied by one normal family, the vast majority of workers could not afford sufficient money to rent a floor for use of one family alone and the result was that, in normal periods, there was over-

<sup>1</sup> This is the literal truth. Thousands of boats, some large but mostly small, formed an integral part of the Colony's economy. The following figures (from the ARP Census) show the domicile of the inhabitants of Hongkong in 1941:—

Hongkong Urban .....	709,000
Kowloon .....	581,000
Water (i.e. Living in Junks) .....	154,000
New Territories North .....	110,000
New Territories South ....	85,000
Total Population .....	1,639,000



crowding side by side with the empty tenements. By British standards the normal tenement floor would permit of only four adult persons living in it but by Hongkong standards two families, each of about six persons, could occupy a floor without overcrowding and poverty frequently compelled more than two families to share a floor. The poorest could afford only a 'bed space' which was often 'home' to a whole family.

This then, was the position in the late thirties and it is probable that a similar picture would have been drawn at earlier periods had the same kind of investigation been made. As this work is concerned primarily with the activities of the state, it should be noted that, despite its findings, the Commission reported that no "measures which could reasonably be taken could, in the immediate future, have any noticeable effect on the problem of overcrowding... although it considered that some action was possible which, even though it would not put a stop to overcrowding, might eventually reduce its proportions." To quote its own words, the Commission merely made "proposals which amount, in the main, to a recommendation that the problem be approached ab initio by experts who have made a special study of such matters as Town Planning, Housing and Slum Clearance."

In housing problems, the administration was reluctant to impose any further control over the public than the enforcement of the 1935 Buildings Ordinance which was mainly concerned with the standards of new buildings and very little with town planning or slum clearance.

Housing in the New Territories was quite different from that of the urban areas and it might not be incorrect to say that, comparatively speaking, no problem existed. The rural population was not subject to the large scale influxes of the cities. Conditions were, however, primitive and it seems advisable to close with a description of rural housing from the Colony's Annual Report for 1946 as this may help to condition the European mind to the basis of all problems in the East—the poverty of the peasantry.

The Annual Report tells that: "... the villages were for the most part built several generations ago. The houses are huddled together, often surrounded by a wall and sometimes by a moat; many of the walled villages still retain their heavy gates and some adhere to the traditional routine of bolting the gates at sunset against bandits. Village houses in the New Territories are known as 'ancestral property' and are handed down from father to son and almost without exception occupied by the owner, who pays a small annual Crown rent to Government. They are usually built of locally made blue brick or cut granite with a tiled roof and cement floor though some of the poorer types are built of sun-dried mud-brick faced with plaster. A typical village dwelling consists of one ground floor room, entrance being made through the front door—there is no back door—into a partially roofed-over space, one side of which is reserved

for cooking, and the other side for storage of dried grass, the principal fuel. An inner door gives entrance to the single room, the rear portion of which is screened off with wooden partitions for use as a bedroom. Over this rear portion, raised some 8 feet above floor level, is a wooden platform or gallery known as the 'cockloft,' which is used for storage purposes or for extra sleeping accommodation if the family is large. The house has no ceiling, except the rafters and tiles, and no chimney. Windows are rare. Dwellings are sometimes built in rows of a dozen or so in the larger villages, with the front of one row facing the back of another row; whilst at other times they are built haphazard to conform with 'Fung Shui' (wind and water), a form of Chinese necromancy which traditionally governs the siting of dwellings and graves. The streets between the dwellings are usually not more than six to eight feet wide, and the drainage is primitive. Lavatories are erected apart from the dwellings, and are similar, though inferior, to those still found attached to some rural cottages in the United Kingdom. The houses are for the most part kept in reasonable repair and the structural design is never altered. Furnishings consist usually of trestle beds, perhaps a table, and a few small stools."

With the extension of the Japanese 'incident' to South China in 1938 the refugee population of Hongkong was swollen to an unprecedented number. The 'normal' population had reached approximately one million and the 'refugee' population was roughly an additional three quarters of a million by mid-1941. As the prospect of Japanese hostilities against Hongkong grew more pronounced, concerted efforts were made by the British authorities to induce refugees to return to their homes in China where these were not in the actual zone of Sino-Japanese fighting. These repatriation plans met with some success in the second half of 1941 and the population had probably fallen to about 1,500,000 at the surrender in December 1941.

During the Japanese occupation of Hongkong, most Europeans and many persons of other races were held as prisoners for the whole period and some were sent to forced labour in Japan, but the major part of the Chinese population were permitted comparative freedom of movement within and out of Hongkong. The Japanese administration, almost immediately after the capture of the Colony, made it clear by posters, repressive measures and forcible 'repatriation' that they intended to reduce the population to about half a million civilians. Persons were not permitted to take any goods or wealth with them. (Travellers were often searched as many as five times before they finally crossed the frontier.)

The population by the end of 1942 was estimated to have fallen to about 1,000,000 persons and the following vital statistics throw a strong light on conditions during the occupation:

Year	Births.	Deaths
1942 .....	10,343	83,435
1943 .....	20,732	40,117
1944 .....	13,687	24,936
1945 .....	3,712	23,098

These figures have been interpreted by Dr. Selwyn Clarke in the following way: "The fall in deaths in 1943 compared with 1942 is accounted for by the corresponding reduction in population resulting from the compulsory evacuation tactics employed by the Japanese. Since no question arises of the return of evacuated persons until after the collapse of the Japanese in August 1945 the actual increase in the number of burials in 1945 indicated a sharp rise in the death rate probably from starvation since the price of rice reached Military Yen 270. (or HK\$1,080 at the rate of 4 to 1 which was in force at this time). This figure compares with M.Y. 0.10 (or HK\$0.20 at the earlier rate of 2 to 1) in the first half of 1942." Investigations made at the public mortuaries at the time of the Japanese collapse indicated that over one third of the deaths were due to starvation and deficiency diseases.

The schemes of 'repatriation' carried out by the Japanese early in 1943 and again at the beginning of 1945 were extremely callous.

The results of 'repatriation' and, more particularly the fantastic increase in the cost of living caused a shift of population on a scale such as is possible only in a territory with the peculiar characteristics of Hongkong. From the estimated number of about one and a half millions at the end of 1941, the population fell in less than four years to certainly not more than 600,000, and probably only 500,000 persons. Two out of every three people, men, women and children alike, had evacuated Hongkong. When the alternative of insecurity and semi-starvation in war-torn and ravaged China is considered, these bare figures show with appalling clarity the attitude of the Japanese authorities towards the civilian inhabitants, the reduction in trade, and the difficulties of keeping body and soul together in Hongkong.

## FINANCE

### A. Local Currency and the Rate of Exchange

It is not easy for the newcomer to Hongkong to appreciate that until quite recent years the currency of the Colony was predominantly metallic, that the coins originated in many countries, that they were individually valued in accordance with their silver content rather than their denomination in their country of origin; and that counterfeiting and adulteration were so customary that money changers habitually 'chopped' (stamped with their seal) genuine full weight coins which circulated at higher values than those which were not so chopped.

Hongkong "currency has been shaped to harmonise with Chinese ideas and requirements" (E. Kann). Towards the



close of the sixteenth century the Spaniards had inaugurated trade relations with South China from their base in the Philippine Islands and the Spanish trade dollar became a recognised medium of exchange. Many other silver coins came into common circulation along the China coast during the following centuries and shortly after Hongkong's foundation the administration declared Spanish, Mexican and other South American dollars, to be "standard in all matters of trade." Chinese cash, Indian rupees (and their component parts) were also accepted as legal tender at fixed rates. In 1845 an effort was made to put the currency on a gold basis but the attempt failed within the year. Nevertheless, the Colony's budget was figured in pounds, shillings and pence until 1862 and British coins were to be found in the Colony's currency — their value being related to their silver content.

About 1852 the suggestion was mooted that a local currency should be created "on account of Mexican dollars, Indian rupees and British coins being at a discount with the Spanish dollar." No action was taken for some years, however, until further fluctuations in the value of Mexican dollar which was becoming the dominant coin, prompted a proposal, in 1863, that a mint be established in Hongkong, and that it should issue a local dollar (and subsidiary coins) which would be the only legal tender. The suggestion was implemented and a Hongkong Royal Mint was established in 1866. The output of the local mint did not find favour with the population and it was circulated at a discount of 1% or more. The mint was closed two years later.

In 1875 the supply to Hongkong of subsidiary coins from the London Mint started. In 1895 a law was passed by which another British silver dollar was struck in India and was made the standard coin. Nevertheless, the dollar coins of many countries, particularly the Mexican dollar, continued to circulate freely even after 1912, in which year an ordinance was passed to ban foreign coin. The government issued large numbers of its own subsidiary coins but these did not immediately oust the Chinese subsidiary coins which were circulating in large quantities. There was a glut of small coins and in 1916, because of this, Hongkong subsidiary coins were at an 8% discount against the dollar. There were, however, other occasions when the Colony's subsidiary coins were at a premium.

From this brief review it will be seen that the early monetary problems of the Colony in common with those of Britain during the same period were those of a metal coinage. The metal was silver. But unlike Britain at that time, there were many different coins many of which were not generally acceptable at their face value. All coins circulating in Hongkong and nearby China were subject to the closest individual scrutiny by the persons through whose hands they passed and rarely circulated freely at their face value. Consequently bank notes, when introduced, were an asset to trade.

The coinage was, in fact, supplemented by a limited paper currency. The annual circulation of local banknotes (with a face value of \$5 upwards) averaged, from 1864 to 1872, about two and a half million dollars. Although these notes were popular among the Chinese there was a tendency to sudden panic. The issue by the Hongkong and Shanghai Bank, in October 1872, of one dollar notes led to an increased total note circulation which reached 3¼ million dollars in 1873.

The value of silver was subject to frequent and often violent changes in terms of gold. These movements in the price of silver were reflected in movements in the rate of exchange, and also resulted, from time to time in Hongkong banknotes circulating locally at a premium over the Hongkong silver dollars. The premium on notes was so marked in 1930 that one of the terms of reference of the Currency Enquiry Committee appointed on the 28th March of that year was: "Is the premium on notes over silver detrimental to the prosperity of the Colony? If so, can it be controlled and by what means?" The findings of the Committee are worthy of record as they throw a sidelight on the currency problems of the Colony.

"The Committee found that the premium, as a fluctuating and uncertain factor, tends to drive trade past the Colony, and is thus detrimental to its prosperity. As regards the possibility and means of controlling this premium, the Committee considered that if the issuing banks here were to give out notes freely in exchange for local silver coins, the exchange level of Hongkong currency must approximate to silver parity, but the inconveniences attendant on the use of silver dollars discourage the banks of issue from accepting any more of them than is absolutely necessary for their business....

"Bearing in mind then that as a circulating medium British dollars have a very limited use, and in settlement of inter-bank commitments are far from being acceptable, it occurs to us to put forward the suggestion that some scheme might be agreed upon among the banks whereby bar-silver might be utilised in the place of minted coins in inter-bank settlements. All indications seem to show that there is a glut of silver dollars in the Colony, and if some such scheme for the use of bar-silver could be agreed upon among the banks the loss on seigniorage might be avoided, and it might then be possible to prevent the further indiscriminate minting of British dollars, for minting which permission might be granted by Government only in special circumstances when the note reserves or the Colony's requirements demand a further supply. We do not consider that outside interests should be allowed the latitude permitted under the present system of saddling Hongkong with superfluous coins in order to gain an immediate profit, a practice which incidentally aggravates the problem for the Colony if and when stabilisation has to be effected.

"To give effect to these measures of reform, and provide for that elasticity in the currency which is necessary to meet the growing needs of the Colony, we have arrived at the conclusion, after our examination of all aspects of the case, that some re-adjustment may be called for in the restrictions now imposed upon the note-issuing banks. Admittedly the power of note issue possessed by banks involves a serious responsibility on their part to Government, which represents the interests of the public, and we make the following proposal therefore with some diffidence. As the law stands at present the extent of note issue is limited by the amount of the capital of the bank concerned. Only the Hongkong and Shanghai Banking Corporation may issue notes in excess of the statutory limit, and only under onerous conditions. We think the prescribed limit should be less arbitrary and should be subject to periodical revision, provided always that the banks of issue fully cover their notes by the deposit in the Colony of bullion or silver dollars to the extent of at least one-third, the balance being covered by approved securities deposited entirely under Government control. The public would thus be adequately safe-guarded.

"As the root of the difficulties in connection with the premium is to be traced to an excess of inward remittances, it is obvious that the recent lowering of the rate of interest allowed by banks on deposits should also in the long run tend to remedy the situation. But owing to the unprecedented fall in silver, overseas Chinese have been induced to make excessively large remittances to Hongkong with a view to getting the benefit from an expected rise in exchange, and it may be some time therefore the action of the banks will make itself fully felt."

The value of the Hongkong currency fell steadily from year to year through the nineteenth and early twentieth century and, after a sharp rise and decline as a consequence of the First World War reached its lowest levels during the thirties.

Year	Exchange value of the H.K. dollar at the end of the year
1852	5/-
1872	4/4
1882	3/7-3/8
1892	2/8-3/4
1902	1/7-1
1912	2/1
1922	2/2-3/4
1932	1/3-3/8
1940	1/2-7/8

These ten-yearly quotations show the trend but hide the wide short term fluctuations in exchange values which took place until the end of 1935. For instance, the rate which was just under two shillings at the end of 1915, had risen to three shillings and four pence at the end of 1918, had reached six shillings and two pence in December 1919, and had fallen to under five shillings by the end of the same month. Such examples could be multiplied indefinitely but it is sufficient to say that the erratic movements of the exchange rate were both frequent and large. During this period the rate of



exchange was determined by the value of the silver to which it was pegged. The rate for the day was fixed by the Banks and it was not until 5th December 1935 that the currency was isolated from silver and that, legally, control over the rate of exchange was assumed by the government.

Although the violent fluctuations in the exchange rate until December 1935 had proved to be a handicap to Hongkong's finances and trade, it was the policy of the administration to keep its currency on a similar basis to that of China and the Chinese standard of value was the silver dollar. It was considered that, while the value of the Hongkong and Chinese dollar was subject to parallel changes, trade was less seriously affected than would have been the case if the currencies were less closely linked even though the change might have given Hongkong greater stability. The validity of this argument would be questioned today (with Hongkong prosperous even though its currency is not linked with the Chinese National dollar) but it held the field until 1935. The policy of linking the Hongkong currency with silver, and hence the Chinese currency, was in fact criticised very severely at the time. The major objection was the government's sterling commitment (mostly salaries and pensions of civil servants) which was estimated in 1930 to be over fifty percent of the budget, and which increased in terms of Hongkong dollars when the value of silver and the Hongkong dollar fell. It is said that the 1930 Currency Enquiry Committee was set up because of local indignation when civil service salaries, paid in sterling, were increased (by about 15%) and at the same time the value of the Hongkong dollar fell to tenpence.

It was not till the rise in price of silver in the nineteen thirties (accentuated by the American policy after 1934) that the Chinese government was forced to abandon the silver standard and Hongkong followed suit. (In order to prevent the accelerated outflow of silver the Chinese government virtually abandoned the silver standard on 15th October 1934 by imposing variable duties on the export of silver and on 9th November 1935 the Hongkong government followed suit by prohibiting the export of silver. The Chinese government finally went off the silver standard and substituted a managed paper currency on 3rd November 1935. Hongkong took similar action in December 1935.)

The Currency Ordinance of 5th December 1935 called in silver coins from circulation and set up an Exchange Fund to control the exchange value of the currency. The Exchange Fund took over the silver formerly held against their issues by the note-issuing banks in return for certificates of indebtedness. The banks were authorised to issue notes against certificates of indebtedness and could increase their note circulation by purchasing further certificates. The Exchange Fund was authorised to hold its assets in bullion, foreign exchange or approved securities. The exchange rate had followed the increased price of sil-

ver during 1934, had reached a maximum of about 2/6d. in April 1935, and had fallen sharply in November 1935 when the prohibition on the export of silver was imposed, to between 1/4d and 1/6d in December. The official rate fixed by the Exchange Fund was very close to 1/3d and remained at this level with only slight deviations until the Japanese occupation.

The Exchange Fund stabilised the exchange value of the Hongkong dollar and fluctuations were reduced to insignificance when compared with the unfettered movements of earlier years. By the 30th June 1938 the Fund had issued certificates of indebtedness to the value of \$191,034,887 which, at the middle market rate on that day of 1/2.31/32, was equivalent to £11,914,806. The assets totalled £13,012,872. The Fund was a profitable organisation and in October 1940 the Government of Hongkong decided that the position was so satisfactory that it made the British Government a free gift of £200,000 and this sum was to be paid annually for the duration of the war from the profits of the Fund provided that the net increment reached that figure.

From the early note issues which totalled only \$3¼ million in 1873 the circulation steadily rose to \$154.6 million at the end of 1931 at which time three banks had the right of issue. During the early thirties the volume remained fairly constant but, after a fall in 1935 to \$137.5 million the issue increased rapidly in 1936 and 1937 to reach \$233.9 m. at the end of the latter year. A further increase in 1938 was evaded out the following year and in 1939 and 1940 the circulation remained near the 1937 figure. It is significant, in a survey concerned with the extent of government operations, to note that, even in 1941, the right of note issue remained with individual banks although the government issued notes from time to time to a limited extent.<sup>1</sup>

The currency of Hongkong served a much wider area than the territorial boundaries of the Colony. As we have seen in considering the vast migration of populations at all times, the barriers between Hongkong and China had never been very great despite the differences of the constitutional machines. In the currency field there were equally large movements which were, however, extremely difficult to measure. The coins and bank notes of Hongkong circulated widely in China alongside the Chinese currency and at periods when one currency was more stable than the other there was a strong tendency to hoard the more acceptable coins or notes. In 1866 the Hongkong dollar was less widely accepted than other coins but insecurity within China at most times in the last half century created a heavy drain on the Hongkong currency. For instance, with the Japanese invasion of Southern China the currency of Hongkong was greatly demanded within China and this movement is clearly shown by the volume of notes issued after 1936. On the other hand, the occupation of the Colony at the end of 1941 temporarily discredited its currency not only locally but on the mainland of China also.

## B. The Banks

The first bank to open its doors for business in the Colony was a branch of the Oriental Bank Corporation in April 1845, and by 1864 when the prospectus of the Hongkong & Shanghai Banking Corporation was issued there were already six banks established locally. But the Colony was not always prosperous. In 1866 two of these banks suspended payment, and the old Oriental Bank Corporation went into liquidation in May 1884. Despite such setbacks, however, the Colony's banking system grew to considerable dimensions and by 1941 Hongkong was served by banking institutions, which included branches of English, American, French, Netherlands, Belgian, Japanese and Chinese banks. Besides the fourteen banks which were members of the Clearing House, there were several Chinese Banks and a number of Chinese financial and business enterprises which did some banking business.

The Hongkong & Shanghai Banking Corporation conducted, in addition to its normal banking activities, the business of Hongkong Savings Bank on usual savings bank principles. There were no banks which devoted them-

<sup>1</sup> The 1930 Currency Committee stated: "Some witnesses have expressed dissatisfaction with those provisions of the currency system by which the privilege of note issue is delegated to the somewhat arbitrary control of private banking institutions.

"We have given careful consideration to this view, but have concluded that much of their dissatisfaction arises from misapprehension regarding the obligation of the note-issuing banks. Although notes were never legal tender, but were primarily a convenient appendage of the currency, and although the law never contemplated that they should supplant silver dollars, it has come about that a demand for currency is in fact a demand for notes, to supply which in practice entails a purchase of gold by a bank of issue. Consequently what the party of demand regards *prima facie* as an obligation in regard to currency becomes, from the point of view of the party of supply, nothing more or less than an exchange operation, which can only be optional. We doubt whether in the special circumstances of the Colony, from which a large quantity of notes must continually be drained into the hinterland of China, such an obligation could be placed even on Government as a note-issuing authority.

"We cannot moreover see that in the circumstances of this Colony a Government note-issue would have any advantages over a properly controlled private note-issue. On the contrary it might involve government, and indirectly the tax-payer, in risks which bankers, being daily engaged in them, are more competent both to anticipate and cover. A Government note-issue again would involve Government in heavy initial expenditure in laying down notes and building treasuries to hold the reserves against them, and in a constantly recurring charge for the staff of a special note department."



selves especially to agriculture or co-operatives.

In the previous section it has been pointed out that the issue of notes was in the hands of private banks. A sidelight which reveals the rugged individualism of Hongkong's commercial community may be recorded from the days shortly after 1872 when the Hongkong and Shanghai Bank first received the right of note issue. It is stated in the correspondence of the manager of the bank at the time that competitors jealous of the privilege which had been granted to their rival, hoarded notes until they held over one million dollars worth. This whole amount was presented for payment in cash at five minutes to twelve on a Saturday morning. It was thought that the bank would be unable to meet such a heavy demand on its silver resources at such short notice at a time when it would be well nigh impossible to obtain any outside assistance. To the mortification of its competitors, the bank was able to meet the unexpected demand, although it was said to have been "a very near thing."

It is important to appreciate that a great part of the income of Hongkong was derived from its 'invisible exports' including receipts from the financing of trade. Hongkong was a centre for foreign exchange banking for South China. From 1870 onwards the Hongkong & Shanghai Bank was prominently identified with the floatation of loans for various governments in the Far East. The Bank either issued or participated in the floatation of loans which are estimated to have been in the region of £100,000,000 for China; £250,000,000 for Japan; and there were also floatations in 1905, 1907 & 1922 for Siam. Three of the British banks furnished the note issue of the Colony and, as has been said, those notes circulated widely in the neighbouring provinces of China.

A further noteworthy feature of Hongkong banking was the remittances from Chinese abroad to their families in China. The Chinese name for the Hongkong & Shanghai Bank, WAYFOONG, could be translated as 'abundance of remittances'. The amount of these remittances was very considerable (probably the equivalent of over £25 million sterling per annum). Moreover, whenever security in China was threatened, the Hongkong banks were inundated with funds transferred to them for safe keeping. Many wealthy Chinese living within China invested heavily in Hongkong and regularly held considerable bank balances in the Colony.

With the Japanese occupation, military yen notes were introduced. No attempt was made to link these notes with external currencies by fixing a rate of exchange and the issue was not backed by bullion or by securities. At first the military yen circulated side by side with Hongkong dollars and the Japanese issued some Hongkong & Shanghai Bank dollar notes. At this time two Hongkong dollars exchanged for one military yen. On

the 24th July 1942 an arbitrary rate of four Hongkong dollars to one military yen was imposed and on 1st June 1943 the use of the Hongkong dollars was prohibited. From that date until the Japanese collapse the only currency permitted was the Japanese military issue the purchasing power of which dropped steeply with Japan's reverses.

### C. The Budget

The revenue and expenditure of the Colony grew with the development of the community and though relatively constant during the decade before the Second World War had risen abruptly in the previous twenty years and again in 1940.

Year.	Revenue. (\$000)	Expenditure. (\$000)
1844	256	212
1861	508	440
1881	1,324	982
1901	4,214	4,112
1911	7,497	7,077
1921	17,728	15,740
1931	33,147	31,161
1932	33,549	32,050
1933	32,099	31,123
1934	29,574	31,149
1935	28,431	28,292
1936	30,043	29,514
1937	33,196	32,111
1938	36,736	37,176
1939	41,478	37,949
1940	70,175	64,788
1941	56,786	60,643

It has been said that the income of Hongkong was small and inelastic and because of this the Colony was restricted in the field of education, public health and other social services. This opinion cannot be accepted without question, however. The budget has risen rapidly and often — most recently with increased taxation imposed during the war conditions of 1940 and 1941. While the levies then imposed were necessitated by abnormal circumstances, a number of types of taxation new to the Colony were introduced. It has been the experience of many other countries that new methods of taxation imposed in emergencies tend to remain in force long after the crisis has passed.

The levying of taxes and duties met at all times with greater opposition in Hongkong than in other territories. Coupled with a natural and universal reluctance to pay anything more than the minimum to the state, the people of the Colony raised some more specific and less usual objections. Income tax was opposed on many grounds but particularly because it was said that the local opportunities of evasion were great except for the 'foreign' (non-Chinese) firms and the salaried and wage earning class. No direct taxes were assessed on incomes until the emergency of the second World War.

Side by side with a reluctance to raise revenue by direct taxation there was violent opposition to any proposals

that customs duties should be instituted.

Without income tax or customs duties it may well be asked how Hongkong managed to meet its increased commitments from year to year. This is a particularly pertinent question since the Colony was one of the few parts of the Colonial Empire consistently to balance its budget. Revenue was collected from many sources.

While Hongkong jealously guarded its position as a free port it is incorrect to say that the Colony received no revenue from duties. In September 1909 a duty (customs and excise) on locally consumed liquors was introduced and remained in force subsequently. After that date similar duties were levied on tobacco, and hydrocarbon oils and there was also a registration fee on the value of non-Empire motor vehicles. The list was extended to include aerated waters, proprietary medicines and toilet preparations as a part of the emergency taxation introduced just prior to the fall of the Colony.

These duties were, however, imposed on local production as well as imports, were confined to a very limited number of commodities and applied only to goods consumed within the Colony. The receipts from duties increased in relation to other sources of revenue from 13% in 1924 to 26% in 1939 and 1940.

A major source of revenue was always crown rents on land and rates on buildings. Income from this source was included in the Colony's accounts under licences and internal revenue and was over a third of the income from this, the largest group in the Colony's analysis of revenue. Crown rents and rates were in the region of 15% of all revenue.

A large item of income to the government was derived from the sale of opium. Revenue from opium was about twenty-five percent of the Colony's total income from 1904 to 1909 and, although relatively less, it was an important source right up to the time of the Japanese occupation.

In 1867 a Stamp Ordinance, whereby all commercial transactions could be considered legal and binding only if government stamps were affixed, was introduced. The commercial community vigorously opposed this move, even though the Colony's finances were in a precarious condition at the time, but it was forced through by the Governor, Sir Richard MacDonnell, and contributed to the Colony's income thereafter. The objection to stamp duties was that Chinese business men were said to stamp commercial documents only in cases where they knew they would be sued if they did not, and for the rest they ignored the government stamps and recognised each others documents unstamped. Whether this allegation was correct is a matter for conjecture, but the amount of revenue received annually from stamp duty indicates that a very large number of commercial documents were stamped. Other items of internal revenue includ-



ed an Estate Duty, receipts from the supply of water, an entertainment tax and a tax on betting.

Apart from duties, rates, taxes, and stamp duties the Colony received considerable sums annually from licences. In a territory with a migrant population there were advantages in prohibiting certain activities and enterprise except under licences and the income derived was of assistance in balancing Hongkong's budget. In 1939 there were forty-one types of licence, from arms, boats, boarding houses and dogs to undertakers, money changers, hawkers and printers.

In addition revenue was received each year from the Post Office, the Kowloon-Canton Railway, fees of court, harbour dues, the rent of Government property, the sale of leases of crown lands, (which, of course, grew with the increased land values arising from the development of the Colony) and miscellaneous items which were swollen in the 1941 estimates by war revenue in a number of forms including income tax.

As well as actual sources of income there was one potential source which was often debated in the Colony. Gambling has always been a ruling passion of the Chinese and no administration was able to diminish or control this extremely popular pastime. The Governor who introduced Stamp Duties made a more determined onslaught on gambling than had his predecessors. He was concerned particularly with corruption in the Police Force and one of his chief difficulties was the attitude of the many members of the Force who were said to receive large sums as bribes presented to them by the proprietors of gaming houses. Defeated in his efforts to prevent gambling, Sir Richard MacDonnell decided to licence a limited number of gaming houses and by so doing not only to control the extent of gambling and bribery but also to bring in revenue to the Colonial Treasury. The British Government confirmed a Gaming Ordinance in 1867 with the stipulation that the money from the licences was not to go to swell the colonial revenue but must be retained in a special fund. The Hongkong public accepted this ordinance with the exception of some six missionaries who objected to the "official recognition of vice." They were unable to make much impression in Hongkong but they made their influence felt in Britain by writing to individuals and newspapers. Hongkong's gaming houses were debated in the House of Commons. As a consequence, in December 1871 the licensing of gambling houses was abandoned. Whenever the government had to raise increased revenue the idea of taxing gambling in its broadest sense was again suggested vociferously by the public but without general acceptance by the administration. An exception was made in 1940 in that four lotteries a year were permitted and a tax was imposed on horse-racing but the extent of the revenue received from these sources was thought by many to be much less than it would

have been if the principle of taxing gambling had been accepted wholeheartedly.

Just as the type of taxation was rather different from that in most European countries, so also the expenditure, which necessitated the taxation, was made in proportions which were different from those of many other countries.

The following very rough approximations give an indication of the manner in which expenditure was divided amongst the main government services:

	1841-1940	1930-1940
Public Works .....	30	24
General Administrative and Non-Effective Charges .....	30	28
Public Order .....	20	14
Defence .....	13	20
Public Health .....	5	8
Education .....	2	6

The largest two items which each averaged 30% of expenditure over the century and 24% and 28% respectively between 1930-1940 were Public Works and General Administrative and Non-Effective Charges. While the latter grouping is no doubt a high one in most countries, the former (Public Works) was exceptionally large because the steadily growing population led to a continuing need for new and improved roads, more water, and new buildings year by year. The proportion of outgoings under these headings was high also because of limited expenditure on other items which ranked high in other countries.

Public order absorbed 20% of the annual budget over the whole century and 14% in the prewar decade. This item also was relatively high. Payments included those for the maintenance of an extensive police informer system. It has been said, by a respectable and reputable 'old hand', that the "government's principal pre-occupations were protecting the revenue and discouraging dangerous thought." This item also was relatively high.

The next major item was defence which, after 1865, averaged about 13% of the Colony's total expenditure and reached an average of 20% between 1930 and 1940. Up till 1861 Hongkong had relied on an annual grant from the British Government to balance its budget but in the early sixties the Colony's finances flourished and when this became known in England it was immediately claimed that Hongkong should pay a contribution towards the maintenance of the military garrison which was based on the island. Strong protests were made both by Mr. Mercer, the Colonial Secretary, and by the Governor who brought forward arguments which were to be used many times in the course of the Colony's history, viz. that Hongkong was not a producing colony, but a mere intermediate station of the China trade; that this station, being anyhow very profitable to India and to the Imperial Exchequer ought not to bear the burden of military expenditure incurred for the benefit of British trade in China and Japan; that the settlement was a struggling one and needed no garrison for its local

protection; and that the Colony had, to the great detriment of local revenue and commerce, been deprived of so much building ground, appropriated for Imperial military uses, that it ought to be considered to have paid, in land, its quota towards a military contribution. The home government concerned itself, however, with one argument only. At that point of time the Colony could afford to pay, and it must therefore be called upon to pay. In spite of public protest, therefore, the contribution was inaugurated and was regularly paid thereafter. The Colony's defence vote was high.

This left a very small amount to be spent on health and on education, while social services were so insignificant that they were not separately recorded. Over the century a bare 5% was allocated to public health and 2% to public instruction. The last decade recorded increases to 8% on health and 6% on education. Even these proportions were, however, extremely small when translated into the actual amounts disbursed from year to year. Several random examples should make this very clear. In 1881, 5.45% of a total budget of \$982,000 was spent on public health and 3.95% on public instruction. The actual payments totalled roughly \$50,000 and \$40,000 and annual per capita payments were approximately thirty cents and twenty five cents respectively. In 1921 the expenditure on health and education had reached about one dollar fifty cents and one dollar per person respectively. By 1931 the payments had risen further to an individual average of approximately two dollars and seventy cents for public health and two dollars for public instruction for the whole year. The equivalent expenditure in 1940 was roughly the same as in 1931. The expansion of social services was quite marked but the level reached prior to the Japanese invasion remained of insignificant value to a large part of the population.

The conditions of the Colony were such that the equitable administration of unemployment benefits, old age pensions and similar services which appear in the budgets of most states would be extremely difficult locally. Hongkong is on the fringe of the world's greatest 'depressed area' and there was no restriction on migration of non-Europeans in and out of the Colony. To provide adequate social service the expenditure would have had to be very great indeed and there would have been a tendency for unemployables, the old and the sick to migrate to Hongkong in very large numbers. Nevertheless the need for government assistance to a large section of the population existed and, partly because of its very size, the problem was at no time tackled except in a very small way when specially vulnerable groups of the community (children, expectant and nursing mothers) were given limited assistance. However, the difficulties were not insurmountable. Greater assistance to repatriate could have been afforded to non-resident Chinese and the bona fide citizen could have been given a greater measure of state aid.



For health reasons alone, it would appear to have been essential that greater social services should have been made available.

For forty-five years the Colony had no public debt but in 1886 it was necessary to borrow \$1,208,000. This sum was reduced for several years till it stood at \$1,076,000 in 1891 but a series of further loans increased the public debt to \$25,784,000 at the 31st March 1941.

The first two public debts were raised in sterling and as the interest on the sinking fund had to be met year by year from local dollar income there was a heavy burden on taxpayers when the dollar fell in value. Conversely of course, the weight was eased when the exchange rose but, generally speaking, a falling exchange rate made trade more difficult because of high-cost stocks, so the burden was increased at the worst time. Since exchanges fluctuated widely in Hongkong's past, the argument for a dollar loan was *prima facie* a strong one and in fact all later loans were raised in local currency.

One loan, issued in 1926, deserves special mention as it was of a more commercial character than is customary in government loans. This was called the Trade Loan and was raised to assist local merchants and others during the exceptional difficulties following on the General Strike and boycott of the period. This is a notable example of government intervention to maintain stability.

## TRADE AND COMMERCE.

### A. Volume and Variety.

From its foundation, a great part of the income of Hongkong has been derived from its invisible exports. These included the direct profit of the entrepot trade, receipts from banking services, insurance premiums and the provisioning and bunkering of ships. These commercial activities have grown with the Colony or, perhaps more accurately it may be said, the Colony has grown with the commercial activities.

The island of Hongkong was barren and sparsely populated prior to it becoming a British possession in 1841 but the trade which led to its acquisition had been developing from small beginnings in neighbouring ports of China for several centuries. By the 1830's substantial trade between the West and China had become well established and Europeans were settled in Macao and Canton. Business at Canton was carried on between the foreign factories' (offices of Factors) and the Chinese merchants under very strict supervision by Chinese officials.

The major item of trade was opium, imported to China from India, and the following figures show the size of this business:

### Average Annual Trade in Opium between India and China

Years	Chests per annum
1798-1825 .....	4,117.
1826 .....	6,570.
1827-1829 .....	7,427.
1830 .....	11,835.
1831-1835 .....	12,095.
1837 .....	19,600.

Eitel tells us that from 1836 to 1837 the stock on hand amounted to 30,000 chests and that the opium was valued in 1836 at about £100 per chest. The stocks, therefore, must have been priced at somewhere in the region of £3,000,000 and the trade in 1837 at about £2,000,000.

The opium was not held in Macao or Canton but was stored in hulks either at the midway anchorage, Kam-Sing-Moon, during the South West monsoon (April to September) or at the island of Lin-tin (some 60 miles from Canton down the Pearl River in the estuary and about twenty miles north-west of the island of Hongkong) during the North East monsoon (October to March). Foreign ships, on arrival from India, would discharge their opium at the receiving hulks and then proceed with the remainder of their cargo to Whampoa (the port of Canton further up the Pearl River) to engage there is legitimate trade. There were some five hulks in 1830 but the number had grown to twenty-five seven years later.

There was constant friction between the Chinese authorities and the foreign merchants and it was to obtain a free port that the British flag came to be hoisted on the nearby island of Hongkong. The Colony was founded as a trading centre and as an entrepot it has grown vastly with the years.

The foundations of Hongkong's expansion and the basis of its trade are manifold. The harbour is the safest anchorage for deep sea ships on the South China coast. It is conveniently placed near the estuary of the Pearl River which serves as a communication with large areas of inland China. Canton failed to compete with Hongkong because, as a river port it was not able to accommodate ocean-going vessels. (Proposals to dredge the river were not implemented although often discussed: Hongkong developed facilities for the maintenance, repair and bunkering of ships, for the handling and storage of goods and for banking, insurance and other financial prerequisites of trade. Port dues were low. The administration gave security and stability and imposed a minimum of restriction on the movement of goods and persons. The interior of China was reached from Hongkong by rail as well as by river. Most of the trade of South China moved in small boats in the rivers and along the coast and at some points it was necessary for goods to be transhipped to ocean going vessels. Large ships were more economic than junks on long voyages including the Hong-

kong-Shanghai run. By and large the Colony had more advantages to offer the merchant than any other port along the coast.

The development of trade is shown in the increased number of ships which have been handled in successive years. This expansion may be seen at a glance in the following table which reveals the growth in the Colony's shipping at intervals of about twenty years:

### SHIPPING

Year.	No. of Vessels.	Total Tonnage
1844 .....	538	189,257
1861 .....	2,545	1,310,383
1881 .....	6,412	5,686,488
1901 ....	10,807	14,599,141
1921 .....	24,697	24,359,720
1939 .....	15,021	28,840,566

Of course, the development had its set backs whenever world conditions or the situation in China reacted to the detriment of Hongkong. We may, perhaps, lend substance to this bare statement by recounting briefly the trade conditions of 1857. This year is by no means a unique one commercially but shows a problem of the Colony at one period in its early growth. We are told by Wood that: "The Mandarins, not unnaturally, strenuously objected to this foreign trading station right at their own door. In 1857 they started a blockade. The holders of Chinese monopolies in Canton, especially those of salt and saltpetre, got the steam cruisers of the Canton Customs and subsidiary native gunboats to patrol every inlet of the Hongkong harbour and search every native junk entering it or leaving it. Ostensibly the aim of this action was to put an end to smuggling. In actual fact trading junks which carried goods from Canton or Pakhoi to the more northerly Treaty ports found that they were forced by the patrol to pay duties a second time if they passed through Hongkong waters. Naturally therefore they avoided Hongkong and thus seriously reduced her trade. The only way that Chinese merchants residing in Hongkong could send merchandise to the China Coast was to ship it in foreign vessels which were not subject to the investigations of the patrol. However foreign vessels were, according to the terms of the Nanking Treaty, only able to enter treaty ports, so Chinese merchants in Hongkong could do no trade at all with non-treaty ports on the China coast. The patrol certainly acted as an effective check on smuggling but its chief effect was to increase the native junk trade of Canton and Pakhoi at the expense of Hongkong."

A more recent and very similar example of the difficulties arising from an anti-foreign policy in China was the general strike and boycott of 1925. Although the strike was broken within a few weeks the ban on the entry of goods to China from Hongkong did not terminate until 1927.



From the practically uninhabited island of 1841, with the trade confined to the rudimentary commerce of a few fisherfolk, the Colony was able to claim in 1924 that it ranked as second port in the British Empire. The sheer size and the fluctuations of the trade of recent years is revealed in the following figures which show more clearly than words can express the fantastic manner in which the value of the Colony's imports and exports rose and fell by almost as much as 100% from one year to the next:

*Imports and Exports of Hongkong 1921 and 1931-1939.*

	Imports. (HK\$000,000)	Exports. (HK\$000,000)
1921 ....	639.5	668.7
1931 ....	803.8	663.8
1932 ....	709.3	611.9
1933 ....	539.1	537.2
1934 ....	494.0	453.6
1935 ....	403.8	487.0
1936 ....	525.1	494.7
1937 ....	923.4	844.4
1938 ....	625.7	664.2
1939 ....	599.5	608.8

These are, of course, the figures of visible trade only. Invisible imports and exports have always played a most important part in the Colony's balance of payments. Apart from the revenue from shipping, banking, insurance and commerce, the remittances of overseas Chinese have been very large and, in the reverse direction, payments for absentee proprietors have also been large.

But we must grasp the variety of the trade as well as its size and variability. Hongkong was in the fullest sense a part of the world market and depended for its very existence on commercial activities in every corner of the world.

It was not only in quantity but also in range that the business of Hongkong expanded from the Colony's concentration on the import and export of opium, silk and tea.

Through Hongkong flowed every type of commodity produced in the East and used in the West, all kinds of goods made in the West for consumption in the East and in addition many articles which moved from one part of the East to other parts of the East. Hongkong merchants traded in almost every commercial commodity and transacted business with almost every country in the world.

In 1939 the following were the major commodity group items.

Commodity	Imports. (\$000,000)	Exports. (\$000,000)
Foodstuffs .....	137.4	108.8
Piece Goods & Textiles .....	99.2	72.6
Oils & Fats .....	89.4	75.0
Metals .....	37.0	37.5
Treasure .....	5.3	75.4
Chinese Medicines .....	25.8	23.3
Vehicles .....	13.6	20.5
Wearing Apparel .....	4.4	28.5

However, nothing could be more incorrect than to visualize the trade of Hongkong as being confined to a limited series of major commodity groups such as is out-lined. The merchants of the Colony bought and sold everywhere and were quick to respond to the opportunity for profit in any line. Changes in taste and price levels were rapidly reflected in the type as well as in the quantity of goods imported and exported. The trade returns for 1939 from which the above major groups have been extracted devoted some 287 pages to 704 named categories of goods all of which had been imported and exported in appreciable quantities, and even the 704 groups include many composite headings which, if analysed, would expand the number of types very greatly.

The composite figures may be amplified by listing, in order of the volume of their trade, the countries which did major business with Hongkong during 1938 & 1939.

Country	Imports 1938 1939 (%s)	Exports 1938 1939 (%s)
China .....	37.0 37.9	45.1 14.3
United States of America .....	8.8 8.6	10.2 23.2
United Kingdom .....	9.1 6.6	4.1 5.2
British Empire .....	8.1 7.0	12.2 13.9
French Indo- china .....	5.6 6.8	4.5 9.3
Netherlands East Indies .....	6.6 6.6	2.0 2.5
Siam .....	5.9 5.1	3.1 2.5
Germany .....	6.3 2.2	— 2.1
Japan .....	3.7 4.6	2.6 1.1
Other Countries ..	8.9 14.6	16.2 25.4

Generalisation from these figures obscures the manner in which Hongkong's trade varied from year to year, not only in volume but also in direction. As a single striking example it is sufficient to note that exports to the United Kingdom fluctuated, in millions of Hongkong dollars, from 3.5 in 1932; to 69.9 in 1933; to 165.8 in 1935; to 83.6 in 1936; to 382.5 in 1937; and to 31.8 in 1939. During these ten years maximum annual exports to the United Kingdom were in the peak year more than one hundred and twenty times the exports to the same country in the lowest year. During the same period the Colony's maximum total annual exports to all countries were less than double the minimum exports in any year. These gigantic movements indicate vividly that Hongkong was part of the world market and goods flowed to the country which at any moment offered the best prices.

The tables show particularly that, even excluding China, Hongkong depended as much on its eastern markets as on Europe and the Americas. As well as China, the trade with French Indochina, the Netherlands East Indies, Siam and Japan (and Malaya and Burma included in British Empire, and Macao included in other countries) was of significant proportions.

It might have been thought that the invasion of China by Japan in 1937 and the consequent virtual closing of China to world commerce, would have completely crippled Hongkong. The recorded values tell a different story.

*Imports & Exports of Hongkong 1935—40*

Year	Imports (\$000,000)	Exports (\$000,000)
1935 .....	403.8	487.0
1936 .....	525.1	494.7
1937 .....	923.4	844.4
1938 .....	625.7	664.2
1939 .....	599.5	608.8
1940 .....	752.7	621.8

The high level of Hongkong's imports and exports from 1937 to 1940 resulted partly from the transfer of businesses from occupied China to Hongkong and the acceptance by the Colony of many new orders for war equipment from its developing industries. Apart from the growth in exports of goods made within Hongkong, there must have been other factors which prevented a fall in the Colony's business.

The trade with China was, of course, influenced but it was by no means terminated. Even the Japanese capture of Canton ninety miles away and the closing of the Pearl River to commerce after October 1939 did not kill trade completely. It will have been noted that the officially recorded exports to China fell during 1939 but the actual movement of goods was no doubt in excess of the official figures. During a period when the Japanese were blockading the coast of China, when trade between French Indochina and China was interrupted and when the Burma Road traffic was suspended, the British colony with an open port was of undoubted advantage to China. It is said that the share of China's total imports passing through Hongkong, in 1940, was double the 1936—1939 level.

Nevertheless, Hongkong's trade with China was reduced after 1937 and it is worth examining the commonly held view that the Colony's trade was exclusively with China. Official figures do not show the origin of goods exported nor distinguish between imports for local consumption and those for re-export. It is, therefore, impossible to differentiate with accuracy, although the visible trade could be placed in four broad categories:

(a) Imports for consumption in Hongkong (including raw materials for certain industries) and exports of Hongkong origin.

(b) Chinese external trade passing through Hongkong, i.e. Chinese goods re-exported to non-Chinese countries and non-Chinese goods re-exported to China.

(c) Chinese Coastal trade, i.e. goods imported from one part of China and re-exported to another.

(d) Non-Chinese entrepot trade, i.e. goods imported from a non-Chinese country and re-exported to another non-Chinese country.



It has been estimated that, prior to mid-1937, an approximate classification under these headings would be roughly as follows:

On third of the imports into Hongkong was of goods intended for retention in the Colony, coming from Chinese and non-Chinese countries in the proportion of one to three; and a tenth or less of the exports was of goods originating in Hongkong (e.g. refined sugar, rubber shoes, etc.). Re-exports constituted two-thirds of the imports and nine-tenths of the exports. Of them, some 10% consisted of "Chinese coastal trade", over 20% consisted of non-Chinese entrepot trade and the remainder, nearly 70%, was made up of goods passing between China and the rest of the world via Hongkong.

The above figures show again that the portion of the Colony's trade which was concerned with China was more important than that portion which was not concerned with China at all. The latter consisted of such items as the trade in rice from Siam and Indochina to Japan and the Philippines, the trade in wheat flour from North America to Siam, and the trade in Japanese-manufactured articles to Indochina, Siam, Malaya and the Netherlands East Indies.

With the Japanese occupation in 1941 and 1942 of Hongkong, Malaya, Burma, Netherlands East Indies and so many Pacific islands, and Japanese dominance of Coastal China, Siam and French Indochina, the Far East became a closed economy, cut off by navies and armies from Europe and America. Attempts were made to break the blockade between Japan and Germany and some were successful. An occasional ship or submarine would make the voyage, taking vegetable oils to Germany and bringing tungsten back to Japan. The small scale of this blockade running serves to emphasise the complete economic isolation of the Far East from the rest of the world on which it had so long relied as a market. An obvious result of this changed situation was to be seen in the rubber industry in Malaya where many plantations were left untapped and some rubber trees were felled to give land for food crops. Hongkong was equally seriously affected.

Hongkong depended as much as or more than any other part of the world on international commerce and its economic life stemmed from the handling of the vast trade between the Far East and the rest of the world. The trade routes which centred on Hongkong were cut overnight. Whereas in some parts of the East the Japanese did everything in their power to promote and encourage trade and to develop the economy of the conquered area, they adopted a different attitude in Hongkong. Here they showed little interest in the repair of buildings, the maintenance of public utilities or the encouragement of local industry and trade and were responsible for the

looting of considerable quantities of plant and equipment for movement to Japan. The port remained a useful one for supplying Japanese armies based in South China, and trade between Japanese-occupied Chinese ports and Japan or other Japanese-dominated parts of the Far East continued, but the volume of commerce was reduced to insignificant proportions.

The trade which continued in the hands of Japanese and of pro-Japanese merchants, after a large section of the business community had been interned or encouraged to emigrate, was a fragment of the prewar trade.

It is worth noting also, that a retail market is far from perfect unless a substantial number of retailers notify buyers of their selling prices either through advertisements or, more particularly, by displaying price labels on the goods which are available for sale. Where bargaining is the general rule, the buyer does not even know the price at which the seller is prepared to dispose of goods. Hagglng over prices has been a custom of the East and Hongkong was no exception, although four large retail shops had commenced selling at fixed prices during the early part of the century.

Hongkong, then, became a part of the world market for many commodities but the market within the Colony, though highly competitive was far from being perfect in the economist's interpretation of the term.

#### B. Direction of Trade.

Hongkong was founded by Britain as a base from which to trade with China. Throughout the nineteenth and the early years of the twentieth century the bulk of the Colony's commerce was in the hands of British merchants and most of the commodities passed between China and the British Empire. This trade grew with the years in spite of the Chinese anti-foreigner policy which had led to the establishment of Hongkong and which had restricted business from time to time. (The anti-smuggling pretexts of 1857 and the general strike and boycott of 1925 have already been mentioned). Chronic civil wars within China also played a part in the uncertainty of the Colony's business, while fluctuations in the exchange rate until the silver standard was abandoned influenced the direction as well as the volume of trade. These troubles did not at any time totally prevent trade but the volume of business between Hongkong and its principal market, China, was subject to sudden contraction or expansion at irregular intervals.

During the twentieth century a considerable volume of trade moved in and out of Hongkong to countries other than China and the British Empire. In more recent years Great Britain's share of Hongkong's trade fell heavily. In textiles particularly, the United Kingdom's business reduced in volume until by the nineteen thirties it was mainly confined to the sale of high quality materials. The bulk business in cheaper goods had gone to Chinese, Japanese

and Indian mills. Germany's share of the machinery, metals, chemicals and dyestuffs markets had risen after a temporary setback during the two decades after 1914.

The major countries of origin and destination in 1921, 1931 and 1939 were as follows:

	United King- dom	British Domi- nions (\$000,000)	China	Other Coun- tries	Total
<b>Imports</b>					
1921	66.0	69.0	122.3	382.2	639.5
1931	79.9	71.4	223.8	428.7	803.8
1939	39.7	42.1	227.5	290.2	599.5
<b>Exports</b>					
1921	6.1	66.8	432.2	163.5	668.7
1931	5.9	60.3	343.0	254.6	663.8
1939	31.8	84.8	90.3	401.9	608.8

(%).

<b>Imports</b>					
1921	10.32	10.79	19.12	59.77	100.0
1931	9.94	8.88	27.84	53.34	100.0
1939	6.62	7.03	37.95	48.40	100.0
<b>Exports</b>					
1921	0.91	9.99	64.65	24.45	100.0
1931	0.89	9.09	51.67	38.35	100.0
1939	5.23	13.93	14.83	66.01	100.0

In these years about half of Hongkong's imports and from a quarter in 1921 to 66% in 1939 of the Colony's exports were to countries other than the British Empire and China. It cannot be overlooked that the official records did not include much of the goods moved by junk and train and that these imports and exports were mainly between Hongkong and China. Nevertheless the importance of Hongkong's trade to other countries is very obvious.

Foodstuffs included rice, sugar, wheat and flour as principal items but there were many lesser imports of foods. The type of manufactured goods passing through Hongkong changed during the inter-war years. The relative importance of textiles declined while light and heavy industrial equipment tended to become more important. China was requiring a higher proportion of capital than of consumption goods.

Of course, the Colony consumed but a fractional part of the goods which passed through its port in any year. This is probably self evident from a glance at the imports and exports enumerated by groups in the last table and is borne out by any closer investigation of the trade in any particular commodity. It is fairly obvious that an area of 390 square miles could hardly produce, for example, the \$108,800,000 of foodstuffs which were exported in addition to local consumption, nor a population of 1,050,256 persons consume \$137,400,000 worth of food in addition to the local production which in the case of the staple commodities, fish and vegetables was considerable. It must be remembered also that the trade return figures did not include much of the produce which, without Customs declarations, was brought into the Colony and left it by the thousands of small trading junks which abounded in these waters. There is no doubt that



Hongkong was a classical example of an entrepot economy.

Much of the voluminous trade with neighbouring countries comprised purely Chinese commodities and was carried on by Chinese firms in Hongkong with branches elsewhere. Trade with Europe, the Americas and Australia was principally in the hands of British and foreign import and export firms who did business with the Chinese mercantile community established in Hongkong, purchasing from them the products of China which had been assembled from the interior, and selling manufactured goods which passed on from wholesale to retail dealers and so to the small shop-keepers in the interior of China. The lack of modern means of communication in many parts of China necessarily made the process slow and difficult.

The Chinese written language was a great hindrance to direct dealings between Chinese traders and merchants and manufacturers in foreign countries. This was first overcome by the European firm establishing a branch in Hongkong and employing a Chinese compradore. The compradore acted as an intermediary who not only bridged the difference of language but also guaranteed the credit worthiness of the Chinese client. Language difficulties were reduced but not eliminated completely, as more Chinese received a European education. Another obstacle to overseas business was a lack of confidence in the quality of shipments and the fulfilment of contracts—the result of many regrettable experiences. Particularly in the early days, the substantial British and foreign firms in Hongkong with their branches in the Treaty Ports of China, served a useful purpose in acting as intermediaries between Chinese and overseas traders.

A market is an area over which buyers and sellers are in such close touch with each other, either directly or through middlemen, that the prices ruling in one part of the market affect the prices paid in other parts. In 1841 Hongkong was an outlying trading station cut off from Europe by a two months sailing voyage and from China by nationalist regulations. Prices of the goods which were bought and sold were not very closely related to the prices of similar goods in other parts of the world although prices within the Colony must have tended to uniformity because of the limited number of traders. The development of communications over the century made fundamental changes in the Hongkong market. The local merchants established close and constant touch with buyers and sellers all over the globe. Hongkong became part of an international market. Prices in Britain, China, America, the Philippines; Siam, Singapore, India, Australia, Sweden, Belgium or a dozen other countries tended to be equated in Hongkong. Merchants received quotations from all these sources and entered into contracts with the nation which offered the best terms.

The Colony is a part of the world market but it is not by any means a perfect market. Buyers and sellers learn rapidly the prices at which transactions can take place around the earth but there are so many merchants in Hongkong that they have no idea of what sales and purchases have been made by their local competitors till the supplies come forward. The result is that when the price in Hongkong is high in relation to other countries there is a general tendency to buy and this leads to a glut about two months later when goods come forward in large quantities. Similarly, when Hongkong prices are relatively low there is a tendency for buyers to restrict their business and a shortage to result several months later. These tendencies are reduced by the steady influence of the regular importers with established agencies who tend to supply the market all the year round. But fluctuations are frequent and occasionally violent because of delays in traders learning the volume of sales which have been made by other merchants.

#### INDUSTRIES.

As has been said but cannot be too often reiterated Hongkong relied for its very existence on the income derived from invisible exports such as the direct profit from trade, receipts for banking and insurance facilities, the provision of ships' stores and bunkers and the repair of vessels. But, while depending first and foremost on entrepot trade, a very large number of small industries and three or four large ones played an important (though not always appreciated) part in the income of the Colony. In recent years industries became both more numerous and in a few cases large.

Before describing the relative importance of manufacturing and primary industries it is relevant to this survey to consider the nature of the Colony's public utilities and communications and particularly to note the part played by the Government in providing or controlling these facilities.

#### A. Public Utilities and Communications

In Hongkong the government carried out very little 'nationalisation' of public utilities. The 22 miles of the Kowloon-Canton Railway in British Territory was owned by the administration. The roads, the port, the air port and the post office were under direct government control and were maintained by the government; but this was the limit of state ownership. In connection with the port and the post office private businesses performed functions which in many other countries fell within the scope of government Wharves and warehouses were under private control; water was taken to ships in the stream by a privately-owned water boat company; pilots were paid by shipping companies and were not employees of the Harbour Department. While the Post Office was responsible for mails and

telecommunication, both telephones and telegraphs were owned and operated by joint stock companies. In addition to the telephone system, the provision of gas and electricity, the operation of the ferries, the tramways and the Peak wire-rope tram were all privately undertaken.

Almost every utility named above was, however, subject to some government supervision, and the widespread system of licensing was used to exercise some measure of control in the interests of the community as well as to collect revenue.

#### B. Other Secondary Industries.

Hongkong's manufacturing industries were much more important to the Colony than was generally appreciated, even in local business circles. This importance, was concealed because there were very few large organisations when compared with twentieth century European undertakings. However, the following figures clearly show the large number of factories and workshops which existed.

Year	No. of Factories & Workshops.
1901	863
1911	1935
1921	2301
1930	3091
1931	284
1936	605
1937	689
1938	829
1941	1200

The basis on which these figures were compiled changed from 1930 to 1931. In 1930 and earlier years the figures were estimates which included all factories and workshops in the Colony. In 1931 and subsequently, a factory or workshop was registered only if it employed twenty or more persons or if it used power driven machinery. However, the fall from 3091 to 284 factories and workshops was probably not entirely due to the change in definition. The depression of that year must have put many of Hongkong's pocket factories out of business.

The vast majority of these hundreds of factories and workshops were housed in converted tenements and were frequently limited to one or two rooms or even a backyard. Most factories were Chinese owned. To understand Hongkong's factories the bare statistics of the textile industry which gave more employment than any other, may suffice. In 1941, there were 150 factories engaged in cotton weaving and 450 in knitting, employing 25,000 and 15,000 workers respectively. The average weaving factory employed 133 workers and the knitting factories averaged 33 employees. As these factories contained few automatic machines they were much smaller than European factories employing a similar number of workers.

The size of the average 'factory' can be seen by comparing the 689 factories which were registered in



1937 with the total labour force at the same date when 55,290 persons were said to be employed in shipyards and factories. Of this total between 10,000 and 11,000 were said to be working in the shipyards. If all the units were of equal size it would appear that each unit employed about 80 persons. But the dockyards were such an exception to the general size that it is advisable to visualise the average factory as excluding dockyards and the unit would, therefore, be more in the region of 65 persons.<sup>1</sup> This estimate takes account of registered factories only and in view of the very large number of unregistered factories and workshops there can be no doubt that the average unit was much smaller.

Large scale industries were limited in number. The largest and earliest established, ship building and ship repair, grew out of the necessity to condition ships which used the Colony for trade. The first ship, the *Celestial* of 80 tons was built in 1843 and by the outbreak of the second world war two of the local yards were capable of turning out ships of up to 10,000 tons.

It was not until 1878 that a large industry independent of shipping was established. This was sugar refining and was based on the Colony's position as an entrepot. Raw sugar was imported mainly from the Netherlands East Indies and the refined product re-exported.

Another major manufacturing project, rope making, was set up in 1885 and was closely connected with the servicing of ships.

The next large industry, cement making, moved to Hongkong from neighbouring Macao in 1899.

Apart from those already named, the most important industries were those making beer, cement pipes, flashlight torches, rubber shoes, preserved ginger, soy sauce, rattan ware, buttons, leather goods, cigarettes, matches, tinned goods, glass ware and paint. In addition there were a multitude of small factories, which were prosperous from time to time.

The natural market for Hongkong's industries was China. From time to time the imposition of customs barriers by Chinese authorities made the export of Hongkong manufactured articles difficult if not impossible. It is not surprising that it was often urged that, for trade purposes, the Chinese government should permit free intercourse between the Colony and China.

<sup>1</sup> In 1941 the 1,200 registered factories employed about 90,000 persons (*Far Eastern Economic Review*, 17th March 1947) and the average unit was of a comparable size i.e. about 75 persons if the dockyards, which employed roughly 13,900 people, were included and some 65 if the docks were omitted.

It was argued that both the capital and the labour of Hongkong were largely Chinese and normally the wealth and the people returned to China. In these circumstances it was considered that there should be no restrictions on any trade between the Colony and China. This theory was put into practice by Hongkong but not by China.

Generally speaking, labour in Hongkong, cheap though it was, received higher wages and better working conditions in relation to output than did the workers in Japan. Consequently the growth of industry in the Colony was of slow development. Some factories, of which the brewery is a good example, were set up to meet local needs, but the settled government and the convenient shipping facilities of the Colony inevitably led to the establishment of industries which catered mainly for an export market. During the thirties the growth was accelerated by the provisions of imperial preference which gave goods made in Hongkong very real advantages over those produced in China or Japan, when the output was for export to countries in the British Empire.

The occupation of important Chinese cities by the Japanese in the late thirties led to a transfer of additional industrial potential to Hongkong. The number of registered factories increased from 689 in 1937 to 829 at the end of 1938. The local enterprises responded to the exceptional needs for rearmament and war supplies which arose after September 1939 when European produce was largely cut off from the East because of the great needs of Britain and because of physical barriers as the Nazi army overran Europe in 1940. During 1940 and 1941 Hongkong's industries expanded tremendously to meet needs and fresh markets. Quantities of textiles, rubber boots, electric hand torches, bulbs and batteries, webbing, and trenching tools were exported. The Colony's industries were flourishing as never before when the Japanese occupied Hongkong.

Between January 1942 and August 1945 manufacturing received a major setback. Hongkong's industries had been based on overseas markets and most factories relied on imports for their supplies of raw materials. Many factories were forced to close down because of a shortage of raw material or because a market for the particular product no longer existed in the Far East. It was economic warfare more than physical destruction which crippled the Colony's industries during this period.

### C. Primary Production.

#### (i) Fisheries

Hongkong was a collection of fishing villages before it was a British colony and fishing was always the most important primary industry of the area. Fish was a staple part of the local diet whenever wages were enough to enable the workers to eat anything additional to rice. The volume and value of the catch was great and the number of fishermen very large. In

1938 there were about 77,500 fishermen using Hongkong as a base of operation and a market for their catch. There were about 5,500 large and small fishing junks operating in the Colony's waters and about H.K.\$24 million was invested in the junks, the gear and the equipment.

Up to 1945 the fishing industry was underdeveloped and the methods antiquated and inefficient. A main reason for the lack of progress was because the fishermen were under the control of a few wholesale fish dealers (or laans). The laans financed the fishermen and bought their fish at a price which gave them a bare living.

Fish was brought to market fresh or salted. The fresh fish were caught by small junks close to the island (the 'long liners') and by a small fleet of trawlers operated by Japanese. These trawlers fished well out in the ocean and the catch was brought into the market on ice by fast motor tenders. Most of the large fishing junks operated at a distance from Hongkong and had to salt their fish because the distance was too great for a sailing junk to deliver its fish to the market in a fresh condition. The fresh fish were about two fifths of the total catch and were consumed in Hongkong while a large part of the salt fish was exported.

During the Japanese occupation the fishing industry came almost to a standstill. Few fishing junks worked from Hongkong because of the difficulty of obtaining rice for the crews. Many of the large vessels left Hongkong for the duration of the war and put to sea from other fishing centres. Others found that the movement of merchandise paid better than fishing and remained in local waters. But such operations (which amounted in many cases to smuggling) were at all times very risky and many junks were sunk during hostilities.

#### (ii) Agriculture.

The local production of rice, vegetables, fruit, poultry and meat was at no time of significant proportions. Only about twenty per cent of the Colony's small area was under cultivation and only about 25,000 persons were engaged directly in farming. Production was by most primitive methods, and yields were low.

The amount of rice annually produced was insufficient to feed the urban population for more than two weeks. The crop was small despite a suitable climate and soil which made it possible to harvest two crops a year.

The quality was good, however, and largely exported to the United States while Hongkong's main needs were met by the import of rice of average quality produced in Indochina or Siam.

In vegetables the Colony produced about one fifth of its needs. Fruit production was slight. The farmers reared a fair number of livestock, mainly pigs and ploughing cattle, but even in pork which was the meat most consumed by the Chinese, the total production met but a small proportion of the needs of the townspeople. Dairy farming was conducted on European lines by one company, founded in 1886, which milked about



2,000 cows but native animals were not well tended and were few in number.

The rearing of poultry was for the most part unscientific and, though considerable numbers of chicken and ducks were raised and there was a move to scientific poultry breeding in 1940, the needs of the population had largely to be satisfied from the Chinese mainland.

From time to time there were great hopes of building up a large pig industry. An Economic Commission studied the question and land was normally exported (to the approximate value of \$4 million in 1937) but the industry did not become a major one.

The farmers were almost all in perpetual debt. If the man who worked the land did not own it, and this was the general rule, he had to pay one half of his produce in rent to the landlord who was often an absentee. If rice seed had to be borrowed one and a half times the quantity loaned had to be repaid when the crop was harvested a few months later.

The government was in touch with the farmers through a District Officer (on the British Colonial pattern) who acted through the village elders. The conditions of those who tilled the soil had not materially changed (they could hardly worsen, any change would almost certainly have been an improvement) for a thousand years.

Had the farmers been able to improve the quantity or quality of their output there was a ready market at their door. Land available was limited but there were opportunities for considerable improvements, particularly in the field of animal husbandry and chicken rearing. Above all, the farmers may have been able to increase their output and have been more interested in their land, had their intolerable burden of debt been eased and had they, through co-operative marketing received a larger share of the retail price of their products.

#### (iii) Mining.

Mineral resources were thought to be small. Mining was carried out on a small scale for silver, lead, wolfram, magnetite, iron and kaolin and from time to time large workings were undertaken. The output from the mines was never very considerable and cannot be treated as being significant to Hongkong's economy.

### ECONOMIC ACTIVITIES OF THE GOVERNMENT OF HONGKONG

In this brief description of the Colony's economy and economic history the primary aim has been to observe government activity and inactivity, on our assumption that a wide range of state operations exert regulative influences over prices. This Chapter will conclude the sketch by briefly enumerating some economic activities of the Hongkong Government where they have come within fields which are generally left to private enterprise. The enforcement of law and order, the provision of such amenities as roads and water and the disposal of land for new building<sup>1</sup> will be omitted from this summary as their effect on post-war price control policy was neither very direct nor very marked.

On the other hand, some items which are not very significant in themselves will be included if they throw a little additional light on the economic problems of Hongkong and manner in which they have been tackled or evaded by the administration. With the same aim several aspects which have already been mentioned will be expanded.

#### A. The Foundation of the Colony.

Hongkong became a part of the British Empire because in the early 19th century the growing trade between Europe and China was constantly restricted by the Chinese authorities. We are quite justified in saying that the wars with China which led to the acquisition of Hongkong were an extension of trade onto the field of battle.<sup>2</sup>

The China War has been referred to as the "Opium" War and much has been written for and against the use of this appellation. Those who argue against calling the hostilities the "Opium" War point out that war was inevitable if trade were to continue because of the arrogant attitude of Chinese officials towards the barbarians (all non-Chinese) and hasten to explain that the opium was not forced on the Chinese but was readily accepted by them. The name of the war is of no more than academic interest from an economic point of view. No one has disputed that the war was based on trade considerations and, of course, that opium was one of the major commodities handled. The war and the acquisition of Hongkong is a prime example of a government's interfering in the existing trading conditions.

At the same period we should perhaps note that Capt. Charles Elliot R.N. who, as Superintendent of Trade, was primarily responsible for obtaining Hongkong for the British Empire, was constantly interfering with commerce. A lesser deed than the acquisition of the island was the requisitioning of 20,283 chests of opium from British merchants and the delivery of it to the Chinese authorities in March 1839. Other examples are that Elliot ordered

<sup>1</sup> Sales of crown land were relatively more important in Hongkong than in most countries. To meet the growing needs of the Colony for living space, land was constantly being reclaimed from the mountain slopes and occasionally from the sea. A volume could be written about the recurrent series of struggles between the administration and the holders of land. They centred around the length of tenancies and the rights of lot-holders of land on the sea-front to reclaimed land. The disposal of crown lands is, however, an accepted function of government and had only a very indirect influence over prices in general. The arguments need not be retold here.

<sup>2</sup> These wars continued long after the cession of Hongkong in 1841 and the "Historical and Statistical Abstract of Hongkong" specifically refers to military operations against China in 1842, 1847, 1857, 1858, 1859, 1860, and 1861.

on 22nd March, 1839, all British merchant ships at the 'outer anchorages' to proceed to Hongkong; and, in November 1839, all merchant ships in Hongkong Bay were forced to remove to Tong Kwo (on the north-west of Castle Peak nearly twenty miles from Hongkong.)

#### B. Population Movement.

After 1914 the Hongkong administration required Europeans to comply with passport regulations which were similar to those of other territories but there was no such restriction on the movement of non-Europeans. The lack of any formality on entry and exit was a feature of government non-interference which had profound influence on the wage, and consequently price, structure of the Colony.

For a brief period during 1941 the authorities endeavoured to restrict immigrants to those who held a certificate that they were residents of the Colony but the attempt was not successful.

The government did, however, intrude into a commercial enterprise based on migration. In 1848 the opening up of gold fields in the Sacramento Valley (California), referred to locally as the 'Old Gold Mountain', and later the rich fields in Australia, the 'New Gold Mountain', initiated organised coolie emigration. Such emigration was at first the concern of the shipping companies who found a profitable business in the transportation of the Chinese workers, but the trade developed to a contract system for the movement of coolies to countries requiring cheap labour. A Hongkong firm would arrange the shipment of the required number of coolies for a commission, and this became a flourishing business for many years. The "Historical and Statistical Abstract" tells us that in 1852 there was a great increase in emigration to the Straits Settlements and California and "emigration to Peru also benefited Hongkong for a time till abuses connected with its trade necessitated abandonment." In 1859 contract emigration was confined to British possessions, and in 1867 an Ordinance "directed against abuses such as had come to light in connection with coolie emigration from Macao" was passed and was subsequently strengthened.

#### C. Finance.

##### (i) Currency & Exchange Control.

A list of the government's restrictive actions would be unbalanced without reference to the relative freedom in the realm of currency and exchange enjoyed during most of this period by the banking institutions in Hongkong. The Colony had no government controlled central bank and the right of note issue was given to the three largest of the commercial banks. For ninety years the private banks were also privileged to regulate the rate at which the Colony's currency exchanged for that of other nations and this rate was moved with changes in the price of silver. It was not till 1935 that the power of exchange control was vested in the administration. The Currency Ordinance 1935 set up an Exchange Fund based on sterling and thereafter



the administration had legal powers of exchange control. The chaotic fluctuations of the past were replaced by comparative stability.

#### (ii) Taxation.

Emphasis has been placed on the Colony's freedom from income tax until emergency war measures were taken in 1941.

Similarly, duties were imposed on a more limited number of commodities than in most countries. For sixty-eight years Hongkong was literally a free port. Even in 1941 the claim was still made and not without justification. The number of taxed items was very limited, duties were applied only to goods retained in the Colony and the taxes were levied for revenue purposes on local production as well as on imports.

Nevertheless, a tax on intoxicating liquors was imposed on 17th September 1909 and remained in force, subject to amendments in the rate of duty, thereafter. After the acceptance, under protest, of the principle of customs duties at later dates a very few other items, tobacco, toilet preparations, proprietary medicines and hydrocarbon oils and aerated waters were added and a registration fee on non-Empire motor vehicles was imposed.

For Hongkong the imposition of duties constituted a relatively much greater degree of government intervention than similar action in other countries because the whole economy of the Colony was founded on the freedom of its trade.

Revenue was derived largely from rates but stamp duties had been introduced in 1867 and remained in force. There had been a typically Eastern tax on salt imposed in 1844 but it was abolished in 1858.

One controversial and major item, peculiar to Hongkong, was the revenue received from opium.

#### The Opium Farm.

We have already seen that opium was one of the most important goods in Hongkong's early commerce with China. Another aspect of the problem was the sale of drug within the Colony.

The Colony had a large and growing Chinese population and the administration had to decide whether to permit the unrestricted smoking of opium; to ignore the practice; to limit it; or to make the habit illegal.

The British Government had urged China to legalise the trade. Hongkong could not very well, in the same breath, prohibit its use in its own borders. The Chinese Government had indicated plainly its dislike of the habit; its unchecked indulgence in a British Colony just over the frontier could hardly be permitted. Moreover, funds were much needed to finance the Colony. Accordingly, the Governor (Sir John Davies) decided upon a luxury tax, and he effected it by selling to the highest bidder the sole right to retail opium, in quantities of less than a complete chest, within the Colony.

This action evoked strong protest from the merchants but the first

Opium Ordinance was passed on the 26th November 1844 and a retailer's monopoly, generally referred to as the 'opium farm', was offered for sale by the Government.

Nowadays Europeans may not be surprised at state supervision of the retail sale of opium but in 1844 the commercial community presented a heavily signed petition, for immediate transmission to the Secretary of State, complaining comprehensively of the exactions imposed on them. The farm was purchased for a monthly rental of \$720 in 1844, \$1,710 in 1845 and \$1,560 in 1846. The following year, licences were substituted for the farm.

From 1848 the Government kept the opium monopoly in its own hands but a decrease in receipts became very marked and must have been balanced by an equally great increase in smuggling. It was decided therefore, in 1858, to revert to the leasing of the monopoly to a single dealer. It was to the interest of this farmer to restrict illicit trade and so secure for himself the greatest possible profit. Because Hongkong was a free port there was no customs station to retard smuggling. The coast line was indented and comparatively long. The cost to the government of policing this length of coast would have been very great, and it was decided to leave the prevention to the opium farmer. The government assisted the farmer to the extent that all persons landing in Hongkong were liable to be searched. He was granted a staff of detectives and informers. The courts were constantly occupied with the cases of smuggling and illicit dealing which the farmer brought to light, and heavy fines, which helped to swell the colonial revenue, were inflicted. The number of people in gaol, on the other hand, as a result of the vigilance of the opium farmer's staff, was so great as to be a cause of considerable public expense.

The farmer had the right to draw as much as 1,800 chests from bond each year. He was privileged to deal with the export trade as well as with local demands.

The opium farm became an accepted fact and a most acceptable source of revenue to the Government for fifty years. In 1908, however, the question of opium was raised again in international discussions and in the British House of Commons. A Bill was passed which arranged for the progressive decrease of the amount of opium to be exported out of India, and instructions were dispatched to Hongkong that all opium divans in the Colony were to be closed. The Colony reacted violently.

The revenue from the opium farm had reached HK\$2,200,000 for each of the three years 1906 and was let for HK\$1,452,000 for each of the following three years. The total annual revenue from all sources averaged less than HK\$7,000,000 during these six years so that the income from the opium farm supplied more than 25% of the Colony's revenue over the period. Little wonder that in the Legislative Council the unofficial members took the opposite view to that of

the merchants of 1844 and in 1909 were strongly opposed to the closing of the 'farm'. The termination of the 'farm' did not, in fact mean the cessation of government income from opium. An 'opium monopoly' succeeded the 'farm' and produced HK\$345,000 in 1938, HK\$1,025,000 in 1939 and HK\$2,250,000 in 1941. But closing of the 'farm' made inroads into the Colony's revenue and in 1909, as has already been mentioned, customs duties were introduced.

Affecting as it did the Colony's position as a free trade port, this last act in the drama of the opium farm is an impressive instance of administrative interference in the affairs of commerce.

#### (iii) Trade Loan.

The Colony's prosperity was dependent on its trade and the strike and boycott of 1925 created exceptional difficulties for local merchants. To assist traders in meeting their commitments at a time when the banks were reluctant to increase overdrafts, the administration issued a trade loan from 16th November 1925. Loans were made to individuals and firms for two year periods against approved securities. Loans were made to the extent of \$15,624,588 in 278 cases. Some loans were repaid when they fell due but the government considered that the financial situation had not improved sufficiently in 1927 to justify the calling up of those which remained outstanding. At 31st December of that year the number of such loans was 164 and the value \$8,102,895.

The repayments were made gradually thereafter and the annual value outstanding was:

1928 .....	\$4,697,906
1929 .....	\$3,340,022
1930 .....	\$2,064,181
1931 .....	\$1,232,579
1932 .....	\$ 752,751
1933 .....	\$ 574,500
1934 .....	\$ 553,500
1935 .....	\$ 548,500
1936 .....	\$ 298,800
1937 .....	\$ 295,493
1938 .....	\$ 153,271
1939 .....	\$ 79,771
1941 .....	\$ 72,271

At the time Hongkong fell only one loan remained for repayment. Over the years \$485,913, or under 3% of the total loans, had been written off as irrecoverable.

The trade loan of 1925 was an example of government intervention for the protection of an important section of the community.

#### D. Sanitary & Factory Regulations

##### (i) Markets.

Regulations over the sale of perishable foodstuffs exist in most modern states but the authorities in Hongkong assumed greater control over the marketing of fresh fish, meat and vegetables than is usual in many countries. This control is first referred to in 1842 the year after the Colony's foundation when the 'Central Market' was constructed by the administration. The market's interior is described by Sayer (quoting from the contemporary



press) as: "a judicious arrangement with separate and well constructed departments 1st. for all kinds of meat, 2nd. fruits and vegetables, 3rd. poultry, 4th. salt fish, 5th. fresh fish, 6th. weighing room, 7th. money-changer houses, etc., etc." In 1858 six large new retail markets were created (central, western, eastern, Tai Ping Shan, So Kun Poo, and Wanchai) for the sale of fresh foodstuffs. In the same year a Market Ordinance was passed.

There have been amendments to the regulations from time to time and changes in the number, location and structure of the government's markets but the controls continued to exist in a rigorous form in 1941.

There were also numerous ordinances dealing with the killing of animals. Depots and slaughter houses have been maintained by the administration throughout the Colony's history.

These regulations did not include direct price fixation but, by restricting sales to certain places, by deciding on the rents to be charged and by generally supervising the marketing arrangements, the government exercised an indirect control over prices.

#### (ii) Factory & Labour Regulations.

The Factories and Workshops Ordinance (No. 18 of 1937) consolidated and extended previous legislation. It provided for the registration and inspection of factories. Regulations ensured the efficient guarding of machinery and prohibited the employment of women and young persons in dangerous trades or during the night.

A Trade Boards Ordinance (No. 15 of 1940) provided the machinery for fixing minimum wages, determining normal working hours and fixing overtime rates in trades where standards were unreasonably low but this ordinance had not been operated at the time of the Japanese occupation.

An Employers and Servants Ordinance (No. 45 of 1902) provided for the giving of one month's notice or the payment of one month's wages in lieu thereof before dismissal in the case of monthly contracts of service. Contracts for over one month had to be made in writing.

These three Ordinances embraced the main labour legislation up to 1941. They are quoted to show that there was a tendency towards an increasing supervision of labour conditions being undertaken by the Administration. Nevertheless, the degree of government activity in this field was negligible, even in 1941. A side light on conditions in earlier years is given in the following extract from the China Year Book for 1929-1930 which says: "The practice of engaging children to carry coal, bricks and sand up the Peak, once so common and the subject of so much comment, has almost entirely ceased. Isolated cases still occur where children are found helping their mothers but they are not now regularly employed and engaged by directors for this work."

The method of organisation of labourers in Hongkong should, perhaps, be mentioned. There were many labour guilds registered in the Colony.

For many years these guilds were joint organisations of masters and men which resembled the mediaeval guilds of Europe. Their object was to provide social intercourse together with sickness, funeral and other charitable benefits for their members. During the two decades before the war, several of these guilds had begun to develop into trade unions representing the workers only. During the Japanese occupation trade union activity was at a standstill.

The administration of Hongkong took a less active part in controlling wages and labour conditions and hence indirectly controlling prices than has been usual in most other countries.

#### E. Public Monopolies.

The government operated the Post Office and the Railway; was responsible for roads, bridges and water supply; and supervised the port and the air port. All other public utilities, the electricity, gas, telephones, trams, buses, and ferries were owned and operated by private companies under licence from the government. Control over the prices charged for a wide range of services were, therefore, subject to much less control than was common in many other countries.

The administration entered an unusual sphere by opening ten public laundries in Wanchai in 1892 but the enterprise was not maintained.

A sand monopoly was operated under a Sand Ordinance (No. 50 of 1935 as amended by Ordinance No. 12 of 1938). The objects of the monopoly were: (a) to preserve the sand beaches of the Colony, (b) to prevent the theft of sand from Land, foreshore or sea bed not under lease from the Crown, (c) to control the importation and (d) to regulate the removal of sand by junk, lighter, truck or lorry.

Although not specified among the objectives, an obvious result was effectively to control the price of sand and its uses.

#### F. Imperial Preference.

The commerce and industry of Hongkong was so interwoven with world trade generally, that international government regulations were of paramount importance. The best example of this type of control, in its influence on price levels within the Colony, was the policy of 'Imperial Preference'.

In tariff bargaining the Colony was in a weak position as it depended on the freedom of its trade. As a result of the Ottawa agreements, however, Hongkong granted Imperial preference to Empire produced tobacco, brandy and motor cars. In return other parts of the British Empire granted preferences to certain Hongkong manufactures, particularly textiles, electric torches and rubber shoes. The preferences did not cover the whole, or even a major part of the Colony's production. The Dominion governments were reluctant to permit Hongkong's manufactures to compete with their own industries. For instance, Canada would not lower her duty on rope from Hongkong. However, the concessions on textiles, torches and rubber shoes assisted the development of these industries.

To obtain imperial preference it was ruled that the 'Empire content' had to be fifty percent of the total value of metal or rubber goods and twenty five percent of the value of textiles. The empire content was assessed on the cost of materials produced or work done within the empire. Hongkong factories were classified as British and the Colony's industrialists relied in the main, on the value added by their processing in order to qualify for preference. Foreign raw materials were mainly cheaper than British and were principally used. For instance, the brass used in manufacturing torches was imported from Germany and there was doubt as to whether the empire content reached fifty percent. Great Britain refused to give preference to Hongkong torches unless empire brass was used but the local manufacturers considered the price too high and chose to pay the full British tariff rather than hinder their sales in Malaya, India and South Africa where their torches were accepted as having fifty per cent empire content. Similarly the rubber shoes, while containing Malayan rubber, had used canvas from the United States of America. In this case, however, United Kingdom canvas was substituted in order that the British market should be retained.

The textile industry received benefit from imperial preference in Malaya and the West Indies and also from the ban imposed against Japanese goods by the Philippines and the Netherland East Indies. To secure preference under the Ottawa Agreement it was necessary only that manufacturers should themselves declare that the goods contained the necessary twenty five per cent of Empire content. It soon appeared that the Colony was being used by the Japanese as a base for the evasion of duties. There were said to be four methods whereby Japanese cotton and artificial silk goods were transmuted into empire products:— (i) Japanese artificial silk goods were imported, a pattern stencilled upon them by hand and they were re-exported as British products on the manufacturer's declaration that the hand labour had added twenty five per cent to their value. (ii) Cotton and artificial silk yarn from Japan or North China were imported and woven into piece goods. (iii) Japanese piece goods were imported and made up into garments. (iv) Imported Japanese artificial silk yarn was knitted into cheap singlets.

In February 1937 the Secretary of State for Colonies informed the Colony that the non-self-governing Colonies would be advised to give preference to piece goods from Hongkong only if they could be proved to have been spun, woven and finished in Hongkong. The Colony was without spinning mills but yarn imported from an Empire country made the goods eligible. Knitted and made up garments were not affected. The new rule came into effect on 26th June 1937. The result was to curtail (i) above; to restrict (ii) to goods made from empire yarn; and (iii) and (iv) were not affected.



The practice of accepting the manufacturers' statement of the empire content was open to abuse and the United Kingdom and some of the Colonies instituted a rule that accountants must certify to the accuracy of industrialists' declarations. The local government was in turn required to endorse that the accountants' certificates were genuine and issued by a firm of good standing. These regulations were unfortunate from the viewpoint of many small industrialists who found it easier to close down than to obtain the necessary certificates but they must have tended to reduce the evasion which had been practised.

#### G. Direct Price Control.

From the indirect controls over prices we must now turn to the direct regulation of the state. Surprisingly there is an early instance of such activity.

When Sir Henry Pottinger paid his first visit to Hongkong on the 21st August 1841, he found a retail food market, complete with price-list under the hand of the Chief Magistrate (Major Caine) in full swing. It is not possible to say, from the available evidence, whether Caine's list fixed prices in advance or merely recorded them in arrears. From the degree of Government supervision in the infant community in other fields, particularly, of course, the employment of labour in roadmaking, it is not improbable that prices of foodstuffs were controlled. Even though prices may not have been rigidly fixed, the publication of a list of retail prices under the signature of the Chief Magistrate indicates no small degree of administrative interest in the cost of commodities.

During the war of 1914-1918 some direct price control was attempted. The controls were applied mainly to foodstuffs and they were said to have been fixed at such high levels that goods were always available below the official prices. The whole scheme was said to have been half-hearted and lax.

With the outbreak of the second World War more rigid food price control regulations, effective from 8th September 1939, were introduced. With a view to preventing profiteering these regulations made it an offence to retail any food imported into Hongkong, except from China or Macao, at a price more than 10% above the retail price for such food as at 31st August 1939. Within a very short time the administration had to show that it was in earnest by prosecuting firms which contravened the regulations. But it was also found that, to be effective, the original regulations had to be modified. As from 5th October 1939 the percentage increase permitted was raised to 15% in the case of goods originating from non-sterling countries. This step was rendered necessary by the open market depreciation of sterling in terms of gold currencies.

By notification dated October 20th, control was restricted to certain listed articles, regarded as essential items of food. It was intimated that it was considered unnecessary to control articles which were in the nature of luxuries because the public could exercise price control for themselves by refraining from purchasing and by using substitutes. In regard to the listed articles, the rule regarding 10 or 15 per cent permitted increases was retained, but it was stated that if it was shown that landed costs of any of these articles had increased to such an extent that the percentage increase would still leave the retailer to sell at a loss, a Prices Board would fix maximum retail prices for these articles and notify them in the Gazette. Later on, as landed costs rose further, or fell, adjusted maximum retail prices would be announced. It was also intimated that the Prices Board would always be prepared to consider representations from members of the public who might consider that the maximum prices permitted were excessive owing to change in circumstances. Evidence of increased landed costs was at first submitted to the Prices Board through the Chamber of Commerce and the Food Controller but, later, merchants submitted such evidence direct to the Food Controller, amended maximum prices being notified from time to time in the Gazette.

Food price control was followed by control over the prices of other goods.

Locally manufactured cement was given a price ceiling in February 1941.

The control of firewood was introduced on 17th September 1940 by the issuing of permits to those who applied to carry on the business of buying and selling firewood. The average annual imports of firewood from all sources for the five years preceding the Sino-Japanese war amounted to nearly 2½ piculs. (333.3 lbs.) per head of the estimated population. Three-quarters of the above imports were from the mainland of China, the most important source of supply being the West River district of Kwangtung. Supplies of firewood from the West River district were cut off following the Japanese occupation of Canton in October, 1938, and the subsequent closing of the Pearl River, but the local firewood dealers maintained their imports at approximately the pre-war figure by drawing supplies from Malaya and Borneo. Imports from these sources rose from 630,791 piculs in 1937 to 1,721,709 piculs in 1939 and 1,689,007 piculs in 1940. These supplies were, however, quite inadequate to provide for the great increases of population, which had been swollen by the influx of refugees numbering up to three quarters of a million, and the price of firewood consequently rose from 120 catties for the dollar (the normal pre-war figure) to less than 20 catties in the early part of 1941. The failure of firewood dealers to increase their importations may have been in some part due to fears that a sudden decrease in the Colony's population, or a Japanese de-

cision to re-open the Pearl River, would force them to sell at a loss, but reliable evidence from Borneo showed that large stocks available there were being withheld from shipment with the apparent intention of creating an artificial shortage. It was decided that, before a control of firewood prices could be successfully imposed, Government must be in a position to sell firewood itself at a fixed price. It was also imperative for reasons of defence that firewood should be available independently of stocks in dealers' hands. Arrangements were made by the administration for the monthly supply of 273,200 piculs of firewood (77,200 piculs of mangrove wood from Penang (Malaya) and 196,000 piculs from Borneo.) The importation by Government was intended to enable a siege reserve to be built up and at the same time to force the firewood dealers to sell at fair prices. The retail price of firewood was fixed at 40 catties per dollar on 25th February, 1941.

An order made under the Defence Regulations, 1940, and published as Government Notification 547 in the Gazette of 17th May, 1940, required every person who had possession, custody or control of more than ten tons of coal to deliver to the Stores Controller weekly a return, in the prescribed form, showing receipts, issues and stock in hand. The export of coal was prohibited except by licence and all applications for export required to be endorsed by the Stores Controller. Price control was not instituted but cases of alleged profiteering in the sale of coal for domestic use were investigated under the powers conferred by the Defence Regulations, 1940, and the subsequent action taken proved effective in forcing dealers to sell at fair prices.

These measures of price control came to an abrupt and untimely end when the Japanese conquered the Island on 25th December 1941.

#### H. Conclusion.

In this recital of a number of restrictive commercial actions which have been undertaken by the public authority from time to time it is possible that the impression may have been created that the government played a large part in Hongkong's economic affairs. Nothing could be farther from the truth and it is perhaps advisable to reiterate that Hongkong clung to freedom of trade at all times. Even the growth of tariff barriers in most other countries did little to change Hongkong's position. This freest of ports exercised so little control over the commerce passing through it that no statistics were collected until 1918 and, in order to economise during a later time of financial stringency (From July 1925 to March 1930), the authorities dispensed totally with the recording of trade statistics for five years.

Hongkong was a part of the world market for many commodities. Capital, labour and goods could enter and leave the Colony with greater freedom than that enjoyed in other countries. The vital characteristics of the Hongkong government's incursions into the econo-



## THE STERLING AREA AND THE US\$ PROBLEM

It must be remembered that for dollar accounting purposes it is the whole Sterling Area, and not merely the U.K., which is the significant unit. This is because members of the Sterling Area share a common pool of gold and dollars to which they all contribute, and upon which all are free to draw (subject in certain cases to an agreed quota). One of the advantages of this system is that a group of countries can get along with smaller working reserves if the latter are pooled than if each country has to hold its own reserves separately. The U.K. acts as the banker of the Sterling Area and administers the central reserves of gold and dollars.

It follows from this:—

(a) that the real key to understanding the current dollar position is not the balance of U.K. payments, but the net gold and dollar deficit of the Sterling Area, the figures of which are now published quarterly (in the first quarter of 1949 this was £82 million, equivalent to \$328 million a year);

(b) that this deficit represents the excess of dollar expenditure over dollar income of the whole Sterling Area—the reduction of the deficit depends therefore upon the action taken to increase earnings and reduce expenditure by the sterling Dominions and the Colonies, as well as by the U.K.

### Reasons for Dollar Payments and Receipts

Visible imports and exports are only part of the story, for payments and receipts are affected also by a large number of "invisible" transactions—e.g. oil sales and production expenses, shipping, payments of interest and dividends, tourist and business travel, films, Government overseas expenditure, insurance and banking services. The importance of these "invisibles" tends sometimes to be overlooked because the figures cannot be calculated and announced every month in the way that figures of imports and exports are (in the U.K. they are published half-yearly in a balance of payments White Paper). But though the figures are not published, it must be emphasised once again that these "invisible"

<sup>1</sup>These members are the United Kingdom, Australia, New Zealand, South Africa, India, Pakistan, Ceylon, S. Rhodesia, the British Colonial Empire, Eire, Iraq, Iceland and Burma. S. Africa now looks after most of her own dollar requirements, meeting these largely by sales of gold of which she is a large producer. Iceland, though in the Sterling Area, does not draw on the dollar pool.

mic sphere were not frequency or extensiveness but rarity and restrictiveness. Our survey must conclude on the reflection that the limited range of administrative controls made Hongkong at the outbreak of the Second World War, one of the nearest approaches to a laissez-faire economy to be found anywhere in the world.

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transactions, as well as visible imports and exports, are reflected in the Sterling Area dollar deficit.

Dollar payments do not, however, arise simply out of Sterling Area transactions with the dollar countries.<sup>2</sup> The reason for this is that sterling countries may be forced to pay gold or dollars in part settlement of their accounts with certain non-dollar countries from whom the Sterling Area obtains vital supplies. Chief examples are:—

(i) *Belgium and Belgian Congo* — whose exports to the U.K. and the rest of the Sterling Area include steel, flax, machinery, fertilisers, raw cotton, copper, diamonds and coffee.

(ii) *Switzerland* — an important source of supply for machine tools, textile and other machinery.

(iii) *Persia* — vitally important because of its oil, the development of which is largely in the hands of a British company (a fact which places the Persian Government in a strong bargaining position; payments between Persia and the Sterling Area are regulated by an agreement under which, in effect, the U.K. provides Persia with the dollars she needs to cover her "essential" imports from the dollar area).

These dollar payments to non-dollar countries have assumed considerable dimensions and are at present of the order of £100 million a year. These payments too are, of course, reflected in the Sterling Area deficit.

The principal items of Sterling Area dollar expenditure may therefore be listed roughly as follows:—

(i) Purchases of goods (including oil) from dollar countries, whether by the U.K. or by other members of the Sterling Area. (In 1948 U.K. visible imports from dollar countries came to about £400 million and other Sterling Area imports to about £300 million.)

(ii) Payments (whether by the U.K. or by other members of the Sterling Area) for "invisible" services rendered for example:—

(a) interest and dividend payments to dollar countries;

(b) freight charges for the use of U.S. and Canadian ships;

(c) the hire of American films;

(d) business travel in N. America by residents of the Sterling Area—also publicity, servicing and other expenses incurred by British firms in N. America;

(e) payments for financial, insurance and banking services rendered by U.S. or Canadian companies;

(f) administrative, diplomatic, military and other expenses incurred in the dollar area by the Governments of Sterling Area countries;

<sup>2</sup>Canada and the U.S.A. are the most important of the dollar countries. Others are Philippines, Cuba, Haiti, Dominican Republic, Mexico, Guatemala, Honduras (non-British), Salvador, Nicaragua, Costa Rica, Colombia, Panama, Venezuela, Ecuador and Bolivia.

(g) operating expenses (including royalties) of British oil companies in Central America (e.g. Venezuela, Colombia);

(h) purchases from dollar sources of equipment for British oil companies operating overseas (this item is included in "invisibles" in the balance of payments White Paper).

It may be noted that dollar expenditure on oil, which includes a small part of item (i) as well as (ii)g and (ii)h, is very large; in fact even the net dollar cost of oil to the Sterling Area (i.e. expenditure, less receipts from sales of oil to U.S. companies) is at present over £100 million a year.

On the income side the following are the main items in the Sterling Area's dollar account:—

(i) proceeds of U.K. exports to dollar countries (in 1948 these were of the order of £150 million);

(ii) proceeds of other Sterling Area exports to dollar countries (in 1948 these were of the order of £275 million, of which the Colonies accounted for over £100 million; the most important commodities are rubber, wool, cocoa and tin);

(iii) "invisible" dollar earnings of U.K. and other Sterling Area countries — e.g. from tourism, shipping, films, banking, insurance and financial services, interest and dividends, oil sales (the latter for accounting purposes being included in "invisibles," in spite of the fact that oil purchases are reckoned as visible imports);

(iv) gold production in the Sterling Area (apart from S. Africa, this amounts to £20 million a year).

### The Deficit since the War

The problem of the dollar deficit was extremely severe in the early part of the war. Lend-Lease and heavy U.S. local expenditure in the U.K. covered the deficit — and built up reserves again — till the end of 1945. The deficit remained and in 1946 amounted to £226 million; it increased enormously in 1947 to £1,024 million; in 1948 it was reduced, with the aid of drastic cuts in expenditure, to £428 million. Quarterly figures are as follows:

Gold and dollar deficit of the Sterling Area	£ million — quarterly rate
1946 January—June ..	40
July—December ..	73
1947 1st Qtr. ....	227
2nd Qtr. ....	242
3rd Qtr. ....	381
4th Qtr. ....	174
1948 1st Qtr. ....	147
2nd Qtr. ....	107
3rd Qtr. ....	76
4th Qtr. ....	93
1949 1st Qtr. ....	82

In the three calendar years 1946-8 there was thus a net gold and dollar deficit of £1,673 million. This was covered as follows:—

U.K. Drawings on U.S. Credit. £930 million (This was exhausted early in 1948).



U.K. Drawings on Canadian Credit. £248 million (Only £64 million of this credit was left at the end of 1948. The rate of drawing is at present being limited by agreement with the Canadian Government to £2½ million a month).

U.K. Drawings on I.M.F. £75 million.  
Indian Drawings on I.M.F. £17 million.

Gold Loan from S. Africa. £80 million (This loan was made early in 1948; it is now being repaid in sterling).

Receipts under E.R.P. (by U.K. and Ireland). £169 million (E.R.P. started in April 1948).

Drawing Down of U.K. Gold and Dollar Holdings (i.e. the "Central Reserves") £155 million.

Total:—£1,673 million.

The Sterling Area's gold and dollar reserves were thereby reduced from £612 million at the end of 1945 to £457 million at the end of 1948. The latter figure does not, however, reflect the true position since there is a considerable time-lag in receipts of dollars under E.R.P. Government policy is to maintain the reserves at the same level as at the beginning of E.R.P. (£552 million).

At present the rate of deficit is much in excess of the amount of E.R.P. aid available in 1948/49—and even more in excess of the reduced amount of aid which must be expected in the second year of E.R.P. beginning on July 1st. (The amount of aid to the U.K. and Ireland in 1949/50 is unlikely to be more than £250 million at the outside.) E.R.P. aid is not, of course, the only means we have of covering the deficit without further drawing on reserves, but it is much the most important.

### The Dollar Export Drive

The U.K. dollar export drive must be one of the main approaches to a solution of the Sterling Area dollar problem. It is not expected that earnings of U.K. exporters will alone be sufficient to cover the cost of all the U.K.'s dollar imports, let alone the whole of U.K. dollar expenditure (nor were they before the war). But this in no way lessens the central importance of increasing U.K. export to N. America. In fact, these exports are at present only sufficient to pay for well under half U.K. imports from N. America, and that is clearly a situation which cannot continue for long.

The target for exports to N. America in the calendar year 1950 is £180 million (re-exports are not included in this figure).

Canada and the U.S.A. are the only large markets where U.K. exports directly earn dollars and as such are rated absolutely top priority. But there is great need also for increased exports to other hard currency markets, particularly Argentina (to pay for vital supplies of meat, hides and skins, maize, linseed, etc), Belgium and Switzerland (to reduce the Sterling Area deficits with these countries, which at present cost us gold) and to Persia (to supply her with more of the things which she is at present buying with dollars provided by the U.K.).

We must also bear in mind that U.K. exports to other Sterling Area countries may save them from having to pay dollars from the common pool for purchases in America, and these markets are therefore of great importance too.

The task of increasing U.K. dollar earning is not one for manufacturers and exporters of merchandise alone. Quite apart from the vital contribution to be made by British oil companies in expanding dollar sales, there are also the "invisible" earnings of the U.K. film industry, the catering industry, the merchant marine, banking and insurance companies. For instance, U.K. dollar earnings from tourism this year are expected to be nearly one-tenth of the earnings of all visible exports to N. America (last year U.K. dollar receipts from tourists and other foreign visitors were about £12 million). As for shipping, the U.K. is still spending under this heading slightly more dollars than it is earning, but it is envisaged in the U.K. Long-Term Programme, which was submitted to O.E.E.C. last year, that the present dollar deficit will be converted into a surplus of the order of £10 million by 1952/3.

### The Dollar Situation before the War

In 1938 U.K. exports to N. America paid for an even smaller proportion of U.K. imports from N. America than they do now. This can be illustrated by the trade returns:

U.K. Trade with N. America		(£ million)	
		1938	1948
U.K. Imports from N. America (c.i.f.)	.....	199	407
U.K. Exports and Re-exports to N. America (f.o.b.)	.....	52	144

Imports are here valued c.i.f. (i.e. including cost of freight, insurance, etc.) and in both years therefore the figures exaggerate the adverse balance of visible trade. They do, however, bring out the point that even before the war U.K. visible exports to N. America came nowhere near to paying for our purchases in Canada and the U.S.A.

Before the war most countries did not in any case have to settle their accounts on a bilateral basis, since national currencies were more or less freely convertible. What concerned a country was therefore its total overseas surplus or deficit, and not its dollar deficit, its sterling deficit or its deficit in any other particular currency.

(In practice, governmental economic policy was not primarily concerned with the balance of payments as such at all, because international economic fluctuations were usually reflected in fluctuations in employment and the national income. When exports fell, the effective demand for imports fell also, though not necessarily at the same rate. Furthermore, in the British case foreign reserves were so large that we could to some extent live on capital without immediately harmful results.)

No complete record was made of transactions between sterling countries and dollar countries, and the problem of producing a reliable estimate of pre-war sterling/dollar payments is fur-

ther complicated by the world fluctuations from year to year in movements of private capital. It was these, rather than disequilibrium on current account, which were largely responsible for the violent exchange crises which countries sometimes experienced. In the short term it is probable that at the prevailing exchange rate, the demand and supply for the two currencies on current account was usually more or less in equilibrium. It may be, however, that this equilibrium was getting progressively more precarious, and that there was a long-term trend towards unbalance between the sterling and the dollar area—though the evidence on this point is not conclusive.

The basic explanation of our post-war dollar problem is that the war has destroyed the balance between production in the Western Hemisphere and production in other parts of the world. The demand of non-dollar countries for dollar goods consequently far exceeds the demand of dollar countries for non-dollar goods, and the dollar is therefore universally scarce. Countries earning dollars require them for their own purchases in America, and there is thus no longer much scope for non-dollar countries to earn dollars from one another—that is, the other foreign currencies we earn are not convertible into dollars, and the Sterling Area can therefore only expect to obtain dollars from direct transactions with dollar countries.

More specifically, the deterioration in the position of the Sterling Area vis-a-vis the dollar area since before the war may be explained in various ways:—

(a) the breakdown of multilateral trade, which means that sterling countries can no longer earn dollars from other non-dollar countries (though it is not certain to what extent this happened before the war, if indeed at all);

(b) the increased dependence of the Sterling Area on supplies from America (the U.K. is no longer obtaining a greater volume of imports from N. America than before the war, but the rest of the Sterling Area certainly is);

(c) the fall in the purchasing power of gold, the price of which has remained fixed since before the war;

(d) loss of "invisible" dollar income, particularly from interest and dividends (due to the wartime sale of assets) banking and insurance and shipping.

(e) the decline in real value of our remaining "invisible" income, due to the general rise in prices.

It should, however, be noted, that, though changes in the terms of trade during the past 10 years have proved unfavourable to the U.K., this may not be true of the Sterling Area as a whole. Again, the volume of Sterling Area exports to N. America, though sharply reduced in the immediate post-war years, is now probably not very different from the volume in the 1930's. Though insufficient is known about this subject to form any reliable estimate, the fall in the value of gold ((e) above) is probably one of the biggest single factors behind the present Sterling Area dollar deficit.



## Hongkong Stock & Share Market

Events in South China were watched with apprehensive attention and as the KMT armies' resistance again crumbled before the advance of the Communist forces and, as usual, defection and treason occurred, little faith in the ability of the Canton government to maintain itself in the neighbouring province for a period exceeding 6 to 8 weeks was shown. The share market has however long ago discounted the effects of the collapse of the KMT government. That Hongkong will have to face across the border a Communist authority has become obvious after the practically unopposed Yangtze river crossing and the capture of Nanking; the surrender of Shanghai appeared to seal the fate of the KMT.

The community, irrespective of nationality and race, endorses the official policy of Hongkong to maintain friendly relations with any authority which has established itself in China, a policy which has been made clear in recent statements by the British Foreign Minister and the Governor of Hongkong. It is a matter for the people of China to choose their government; that the inefficient and oppressive KMT government is now about to be overthrown is nowhere deplored but that a Communist government is presently emerging may have unfavourable repercussions on business generally. Provided that the CCP adheres to its previous policy statements of promoting trade and industry and of protecting private interests during the long period of "New Democracy," there should be no reason for harbouring suspicions and denouncing the new regime of ulterior motives. Unfortunately, the press and radio announcements of recent weeks mostly emanating from Peiping where, one supposes, more CCP control is in evidence than in Shanghai or newly 'liberated' areas in the south, have had a discouraging effect on commerce generally.

The possibility of the CCP's subversion to Moscow is a matter which is always present and it is here where Chinese and foreign business men cannot conceal their anxiety. Every political move in this age is subordinated to the strategic necessities of the 'cold war' and as the chief protagonists of this period through which we cannot help to live as witnesses, and perhaps as victims, are jockeying for the most advantageous positions, it is of course only logical to expect pressure by Soviet Russia on 'red' China. The CCP is dependent on Moscow to a much greater extent than is commonly supposed; although some Peiping broadcasts reiterate the 'intrinsic strength' of the People's Liberation army, the fact is that without future ample support and direction by the USSR the existence of China is a precarious one. Being thus obliged, possibly against better wisdom, to comply with worldwide strategic concepts of the USSR, the CCP may find itself one day in a position of actively antagonising Britain and America. Hongkong may

then come into the forefront of Anglo-Chinese disputes not for the sake of negotiating a compromise or otherwise settling locally arising issues, but for the purpose of political deviation and embarrassment. Over the emergence of such Moscow-inspired incidents of the future Hongkong will have no control.

What can be done to avoid incidents and friction, on Hongkong's side, will be done and has been done. It remains to be seen how contacts will work out in fact when the CCP will establish itself formally in Canton but there is guarded optimism that the new regime will realise the advantages of cooperating with Hongkong and remaining on amicable terms. Tension, nevertheless, will remain with us for a long time as over-all considerations of a potential third world war cannot be brushed away here, or anywhere else.

The steadily arriving British forces have had a very reassuring effect on the community at large. There will be shortly an army of over 25,000 men in the Colony and considerable naval and air force contingents will further reinforce the defence position of Hongkong. Under these conditions it appears most improbable that any attack from the north will be attempted and there has of course never been any indication that the CCP is contemplating any military adventure outside the borders of the vast country. One can afford to take a sanguine view of developments in the future especially now when the U.S. Government, through Secretary of State Acheson, has made it clear that any form of aggression by the CCP led People's forces beyond the borders of China will bring about American military action. Although Hongkong is now in the centre of the Far East's 'cold war' the situation can be calmly viewed as on one hand ample preparations have been made or are now being made to meet any emergency, while on the other hand the sound sense of the Chinese people can be relied upon to avoid any course of action which ultimately would only result in a national calamity. If the leaders of the CCP can resist any possible instigations by Moscow to utilise China in the world-wide political game for power, peaceful relations between 'red' China and all her neighbours can be expected.

The disclosures of the American State Department's "White Paper on China" have not come as a surprise to local residents. It was obvious since the end of 1947 that the KMT was unable to stand up to the challenge of the Communists who had gained the support of the majority of the people; the KMT rule was bad in every respect and thus the Communists could rightfully claim that they were conducting a liberation campaign; no outside help even on the lavish American scale could have staved off the collapse of the KMT. A surprise was however the official statement of the US Govern-

ment that they would not suffer any extension of Communist control beyond the Chinese borders and this statement has come, at a time when many governments of Far Eastern countries appear concerned about the future intentions of the Chinese Communists, as a most important indirect assurance of American firmness and strength in the Pacific and the Far East.

### Business of last week

The past week constitutes a record on the Exchange. It is easily the quietest experienced for a very long time. A further downward drift in prices still fails to arouse interest in those Companies which are known to be doing as well if not better than last year. Perhaps this lack of appreciation may not be dispelled until the horizon becomes more clarified.

One encouraging bright spot is the subjoined announcement by the Directors of the Dairy Farm.—that in lieu of an interim dividend for 1949, a bonus issue will be made to all Shareholders registered at the date the books are closed prior to the next Ordinary General Meeting. The issue will be made in the ratio of one New share for every Old share. The New shares will rank for dividend as from January 1, 1950. In addition, a dividend of \$2 per share will be paid for the year 1949—if the profit warrants the payment.

**Volume of Business:**—Total sales reported amounted to 21,539 shares an approximate value of \$½ million, a decrease of \$½ million compared with the previous week.

**Price Index:**—The Felix Ellis averages based on the closing prices of 12 active representative local stocks closed at 126.07 for a net loss of .59 compared with the close of the previous week. Day-by-day, averages were:—August 2, 126.54; August 3, 126.31; August 4, 126.09; August 5, 126.07.

	High	Low
1947 .....	155.82	123.88
1948 .....	148.68	134.05
1949 .....	138.37	125.05

### Business Done:—

Banks:—Bank of East Asia @ 114.  
Insurance:—Unions @ 652½, 650.  
Docks & Godowns:—Wheelcocks @ 28½.  
Hotels & Lands:—H & S Hotels @ 10.30, 10.20; H.K. Lands @ 51; S'hai Lands @ 2.20.  
Utilities:—Hongkong Tramways @ 16.40, 16; China Lights (O) @ 12, 11.90, 12; China Lights (N) @ 8½; Hongkong Electric @ 30½, 30¼; Telephones @ 20; S'hai Gas @ 2.  
Industrials:—Ropes @ 15½.  
Stores:—Dairy Farm @ 37½; Watsons @ 44; China Emporium @ 9.10.  
Cottons:—Ewos @ 5.



## Exchange & Financial Markets

### TOWARDS SOLUTION OF THE STERLING AREA'S DOLLAR SHORTAGE

London has regained a sense of perspective after the rumours and excitement of late June and early July. The losses from the Sterling Area's gold and dollar reserve during the second quarter of the year turned out not to be as big as prophets had foretold. They were still, of course, serious. In three months London had to pay out £65 millions in gold and dollars, reducing the reserve by 12 per cent. to £406 millions. This was not quite the whole of the effective reserve remaining. On June 30, there was also £20 millions due from E.C.A. for authorised purchases which Britain had already paid for but which had not yet been reimbursed.

Britain's receipts from Marshall Aid in the second quarter were £85 millions, almost the same as in the quarter before when they were enough to cover the gold and dollar deficit in British trade without drawing down the reserve. But from April to June the deficit was £157 millions, towards which drawings on the Canadian loan to Britain contributed only another £7 millions. The remaining £65 millions uncovered by income and drawn from capital represents mainly the fall in the Sterling Area's dollar earnings that has followed the American business recession. There were some other special difficulties. During the last quarter Britain has had to make unusually heavy payments of gold to settle her transactions with Belgium and Switzerland. These payments will it is hoped, be very much reduced under the new O.E.E.C. scheme for mutual aid within Europe. By this Belgium, in return for an extra grant of "conditional" dollar aid from the United States Economic Co-operation Administration, is making larger supplies of Belgian francs available to Britain and other European countries; the scarcity of this currency has for the past year been sharply restricting the trade among the European partners in the Marshall Plan, but it will now be relieved. This will ease Britain's position. So, too, will the measures that the British Treasury is continually taking to stop the leaks of dollars through "cheap sterling" deals by third countries.

But Britain's main problem remains. In the last three months the Sterling Area's main commodity exports to the U.S.—rubber, tin, wool, diamonds and cocoa—have produced only half as many dollars as they did in the first quarter of the year. And sales of British manufactured goods to Americans have also been sharply reduced. The Sterling Area's dollar earnings have, of course, fallen because American commodity users have been holding off the markets and running down stocks, so that prices of the things the United States imports have fallen sharply.

Britain cannot go on running down her reserves as she has done in the last quarter. No one knows what is the minimum working balance

needed in London to support all the world trading transactions carried out in sterling and so to maintain the largest surviving area within which multilateral trading is possible. The British Government had hoped to maintain the reserve at around £500 millions throughout the period of Marshall Aid. At £400 millions it is certainly getting dangerously close to the working minimum. But, whatever may be said in criticism of the inadequacies of Government policy in Britain, at least the Government must be praised for not having got into a panic over the present situation. Desperate measures drastically to cut down Britain's dollar imports at once would check the immediate drain on the reserve, but they would also cause enormous dislocation for traders in North America and would tend to push American prices and incomes farther down and extend the business recession. In Britain, of course, they would quickly be followed not only by cuts in food rations, but also by shortages of raw materials in the factories that would reduce output and employment and set back the whole of the recovery that has been achieved in Europe through the first year of the Marshall Plan.

Sir Stafford Cripps, Britain's Chancellor of the Exchequer and Minister for Economic Affairs, is therefore taking a calculated risk. He has already given instruction for every possible small economy in dollar spending, but has made it clear that this in itself will not achieve much. Any large cutting of the import programme is to wait until September. This means that the drain on Britain's gold and dollar resources may go on for another two months. Trying to make the fastest possible progress towards standing on her own feet, Britain alone among the European countries has asked for 25 per cent. less Marshall Aid in the second year now begun than in the first. This means that though strenuous efforts to sell more in the United States may make the deficit in the British accounts smaller in the next three months than in the last three, the part left to be financed from capital will probably remain quite as big. By September new policies must become effective. Britain's Government is waiting in the hope that will be possible to devise, in consultation with the United States and with the Finance Ministers of the Commonwealth, policies that are not restrictive of world trade. No one imagines that such international arrangements will be enough in themselves. They will still leave Britain with the necessity of increasing her competitive strength, of raising industrial efficiency and lowering prices. But these internal efforts also are not enough without an international effort to expand the volume of useful world trade. If that cannot be done Britain will have no choice but by September drastically to cut her spending on American goods. And because the reserve will be smaller

the cuts will have to be even more sudden than might be made now. The British Government's contribution to the solution of the world problem of dollar shortage is to take the risk of waiting while fresh efforts to escape from restrictionist policies are made during the next month or two.

### US\$ Market

Last week's market was narrow, the small fluctuations discouraged speculators as rates settled down at an average of HK\$615. Notes still command a slight premium (½%) over TT with DD rates quoted lowest. Chinese overseas remittances increased and are expected even larger during the following weeks before the next Chinese festival. Gold importers were not much in evidence as new contracts for delivery in Macao were small.

Merchant demand, on the other hand, was rising as winter requirements had to be covered and the feeling was strong that further waiting was useless as the present rate of open market US\$ was not likely to decrease much. Thus new cargo was ordered in larger volume. The public must expect to pay more for US goods as the unofficial exchange rate has, since April, increased by about 15 to 20%. Although one may look forward to a lower US\$ price merchants are compelled to place their orders now and open L/Cs in US\$ in favour of their American suppliers.

Manila and Bangkok sellers (mostly of Chinese family remittances) were conspicuous last week; Hongkong still offers the best prices in the whole Far East for US\$ funds.

Highest & lowest rates of last week per US\$100:—notes HK\$627-609, DD 621-607, TT 623-609, corresponding to cross rates (at the parity of 1/3) of US\$2.568-2.627 (and at the banks' selling rate for TT London of 1/2.13/16 to US\$2.60-2.66).

New York prices for area account sterling were around 2.75 and similar prices were reported from Western European free exchange markets.

Turnover of last week was about US\$1¼ million in TT and another US\$1 million in notes and drafts.

Japan account US\$—of the Hongkong-SCAP two-way account—was hard to obtain and rates in the open market varied strongly. Demand for Japanese goods is strong but as exports to Japan are low the exchange earnings of local exporters are inadequate and thus importers cannot get sufficient funds in Tokyo to pay for the Japanese commodities required for local consumption or re-export. Hongkong Govt. (S & D Dept.) allocates to importers 60% of total proceeds of local exporters and earnings of shipping companies, banks, insurance firms. Exporters retain for their own use 40% of proceeds in Tokyo, most of it is being sold in the open market to importers at the rate of the day. This rate which was until early May only around HK\$4.60 per Tokyo account US\$1 has advanced much during recent months reaching at one time HK\$5.80 but usually moving around



5.30 (a result of the high open market US\$ price and the strong demand for Japanese goods which was not balanced by adequate Hongkong exports to and services for Japan). As Japan account US\$ has become ever scarcer there were some offers of HK\$6 made but it appears that at such excessive price Japanese goods no longer would prove competitive in foreign markets. The Tokyo account US\$ market is not organised in any way, it is a business between a number of local importers and the approx. 10 firms which have entrenched themselves in the Japanese export business and who dispose of 40% of their proceeds freely. No banks are included in this business but a few brokers, actually themselves traders, establish contacts between buyers and the small number of exporters who have earned funds in Tokyo.

### Gold Markets

Fluctuations of gold prices during the week under review were influenced mostly by war news in China. Rates were stimulated upward during the latter part of the week; earlier in the week prices were easy on account of the huge stock and heavy change over interest. The success of the action of H.M.S. Amethyst which at one time was supposed here to cause retaliatory measures by the Peiping authorities and might embarrass the position of Hongkong, was acclaimed and approved. The market was not influenced.

Highest and lowest prices of last week were for .945 fine gold \$373.50—345.50 per Hongkong tael, or \$391-363 for .99 fine gold. Cross rates were US\$52, high, US\$49½, Low.

### Trading reports of last week:—

Monday, August 1: Bank Holiday. .99 fine gold transacted at \$383-379, or in .945 fine 365.50-361.50, unofficially. Market easy on heavy selling by the Central Bank of China in Canton, where rates continued to recede.

Tuesday, Aug. 2: Opening and closing rates \$357-352.50. On the fictitious forward market the change over favoured sellers at the interest rate of 54 cents per tael of .945 fine per day. Throughout the week, the change over rates continued in favour of sellers. On increasing offers of .945 fine bars interest change over rate recorded the maximum. With much lower rates in Macao and Canton, the market was easy, and lowest of the week at 345.50 recorded.

Wednesday, Aug. 3: Opening and closing 355.25-358.50. Change over 15 cents. Good demands for .99 fine bars

for export to Bangkok and Singapore by Swatow operators and lower change over interest checked the drop, and the market turned steady.

Thursday, Aug. 4: Opening and closing 358-357.75. Change over 25 cents. Market was quiet but undertone steady.

Friday, Aug. 5: Opening and closing 359.50-368. Change over 25 cents. Occupation of Changsha by the People's Army stimulated the market, speculators heavily bought, market was firm towards the closing.

Saturday, Aug. 6: Opening and closing 371-367. Change over 29 cents. With continued news of the success of the People's army, rates advanced to 373.50, highest of the week recorded. Heavy profit taking selling eased off the market. Unofficial business in the afternoon quoted 368-367.50.

### Trading, Positions and Cash Bars:—

Official tradings of the week were about 156,000 taels, and unofficial tradings about 3,500 taels, making a total of 159,500 taels in five trading days at the exchange, an average of about 32,000 taels per day. Positions left open at about 117,000 taels per day, in which interest hedging forward operators, gold importers and local speculators were on the bearish side, Shanghai operators, Swatow operators, and Canton operators were playing a la hausse. Cash bars turned over officially 13,240 taels, unofficially over 9,500 taels, totaling 22,740 taels.

### Imports, Exports, Stocks, and Consumption:—

About 21,000 taels were imported from Macao during the week. Exports amounting to over 9,000 taels were reported, with destinations:—Bangkok 4,000 taels, Singapore 3,000 taels, Saigon and Haiphong 1,000 taels each, (these were all in .99 fine bars).

Ready delivery stocks in the Colony estimated to be about 275,000 taels.

About 10,000 taels changed hands by interest hedging forward operators and only about 3,500 taels were for local ornamental consumption.

Since the change of trading to .945 fine gold as from July 13th, although no dispute arose about the fineness of the new bars, it seemed that aside for export business the local hoarders were preferring .99 fine bars. Bars of .945 fine are accepted by the commercial banks for advances at reasonable interest, but native banks refused loans on gold security as they preferred to hedge forward instead of making loans; according to the daily change over interest rates, banks would receive twice or three times the commercial bank interest.

### Gold trading in Canton:

The Central Bank of China in Canton sold in the open market cash bars to the amount of over 12,000 taels, and using the proceeds in Hongkong currency to buy silver coins and their own certificates. This was done to stabilise the silver currency. But since the People's army was advancing, the gold sales policy, while a success in itself, may eventually not rescue the silver certificates.

### South African gold sales

Gold producers in South Africa have arranged to sell 620,000 ounces of pure gold abroad at US\$38.52 an ounce. The President of the Transvaal Chamber of Mines has announced three separate arrangements. The Transvaal Chamber has arranged to sell up to 250,000 ounces to a newly formed South African company called "Goldware Proprietary, Limited" which is controlled by one of the leading London bullion firms. This company has set up a factory near Johannesburg to make gold articles for export. Another company has been given an option to buy 350,000 ounces between now and February 1951. Under a third arrangement, 20,000 ounces will be made into articles for export for the gold producers, thus taking advantage of available manufacturing capacity within the Union to produce goldware. The sale of another 150,000 ounces of gold is being discussed. The Chamber has received many inquiries from firms wanting to buy gold, but such requests were referred to the Treasury which must approve all sales.

### Overseas Gold Prices

Price in London 172s 3d. per fine ounce. Price in New York \$35 per fine ounce=173s. 8.367d. per fine ounce at exchange \$4.03. Price in Bombay Rs. 113.0.0 per tola=452s. 0d. per fine ounce. Price in Alexandria Piastres 157½ per dirhem=322s. 1d. per fine ounce.

The Transvaal gold output for June, amounted to 990,808 fine ounces as compared with 978,908 fine ounces for May, 1949, and 966,583 fine ounces for June, 1948.

Free market prices f.o.b. port of shipment, Europe or America, from US\$44 to 45 per fine oz.

### Silver Markets

During the week under review, the highest and lowest prices of Bar Silver were \$4.35-4.20 per tael. Hongkong Dollar coins \$3.30-3.20, per coin. Chinese Dollar coins 3.70-3.55, per coin and Twenty-cents coins \$2.90-2.75 per five coins.

The report that importers here contracted for over 700,000 ounces of silver in bars from London was not confirmed, but it suggested that the Kuomintang Government continued to buy through merchants for coinage purposes in Canton and making profits from the difference in world and Canton silver prices.

Transaction of bar silver in the local market was rather small. Chinese Dollar coins were steady and without much change as the local market followed Canton. Since the Central Bank

### HONGKONG OPEN MARKET RATES per US\$100

August	Notes		Drafts		T.T.	
	High	Low	High	Low	High	Low
1 .. .. .	6.21½	6.15½	6.19½	6.15	6.21	6.17
2 .. .. .	6.17½	6.09	6.12½	6.07	6.14	6.09
3 .. .. .	6.18½	6.12½	6.13½	6.11	6.14½	6.12
4 .. .. .	6.22	6.13	6.16	6.11½	6.18	6.13
5 .. .. .	6.24	6.17	6.19	6.16	6.21	6.18½
6 .. .. .	6.27	6.17½	6.21	6.17	6.23	6.18



of China in Canton was using gold to buy silver coins for redemption of certificates, prices of the Chinese dollar coins were steady. Twenty-cents coins transactions were small, and followed the ups and downs of the Chinese dollar coins. Total business done locally estimated at HK\$220,000 confined to purchases and offers by travellers.

Imports and exports aside from those of travellers were very heavy and estimated to be well over 4 million ounces in weight. These were all in transit for the Kuomintang Government.

For the present, the local silver market was simply a subsidiary of Canton. Trading in Canton amounts to over HK\$1½ million daily, which is 40 to 50 times the local trading. When the People's Army will further advance south, the silver market of Canton may move here. The People's Government prohibited trading in silver. Possession is however not interfered with. Nevertheless many holders of silver in bars and coins have already transferred their hoards to the Colony and this movement will increase as the 'liberation' of Canton draws near.

The future price position of silver appears weak. The decline is unavoidable. Chinese silver coin prices are still far above world prices and therefore an adjustment is overdue. Eventually Chinese dollar coins will sell here below their silver content price (in accordance with New York market offers) in order to convert them into US\$. Under current artificially high prices local export business is dead. The change-over in Canton with the establishment of a silver market of larger proportions in the Colony will witness a revival of export business.

Overseas prices remain unchanged. The official price of silver in London for use in essential industries remained unaltered at 43½d. per ounce .999 fine for both cash and two months' delivery. Demand, on rather a larger scale, continued to be met by sales from official stocks. There has been no movement in the New York quotation which ruled at 71½ cents per ounce. A London export price of silver is quoted at about 58d.

#### Unofficial Exchange Markets

Piastre notes forward and spot sales quoted from HK\$13.70 to 13.90; Nica guilders from \$33.50-34.30, Java Bank guilders from \$33 to 33.50; Baht notes, large denominations, from \$26 to 26.20, small notes, \$25.30-25.50 (all rates for 100 currency units).

Bank of England notes quoted from \$16.20 to 16½ as a result of lower New York offers for pound notes (which dropped there to US\$2.76). Australian pounds \$12.60-13.40. Canadian dollar \$5.70 to 5.75. Indian rupee \$1.20½-1.21. Burmese rupee \$0.86. Ceylonese rupee \$1.01-1.04. Malayan dollar \$1.84¼-1.85. Philippine peso \$2.96-3.03. (all rates per one currency unit).

## COMMERCIAL MARKETS

### THE SITUATION IN THE FAR EAST

The situation in the Far East following the frank admission of the Nationalist Government's failure by the United States as outlined in the White Paper recently issued from Washington, is beginning to take a more definite form. As the situation now stands, China as a so-called "democratic" area has almost completely given way to the overwhelming onslaught of totalitarianism. There may be isolated efforts to resist but these, in view of the now extremely large and sufficiently well equipped Communist army, are not creating any great optimism even amongst the most sanguine of supporters. Incidentally the Communist efforts through the Peiping Radio, to attribute these sporadic attempts to withstand the Communist drive to American aid are unnecessary, for should the United States decide to help these efforts, they would become a definitely more serious threat. The Chinese, as a whole, are presumably prepared to accept "what may come" and indeed, in view of the past calamitous inadequacy of the Nationalist regime, little else can be expected.

In the North the situation in Korea is threatening to usurp the position in the headlines which for so many months has almost exclusively been taken by China. In fact, events there may well within the next few months totally supercede the collapse of the Nationalist Government. The division of Korea into two spheres of political thought and government has resulted in an unhappily estranged people. Lit-

tle attention has been paid to this far away corner of the world, although observers have recognised and occasionally voiced their opinions as to the possible result. Foreign residents there have for some time past lamented the growing tension between North and South, although the avowed aim of both parties is desirable, namely, the unification of the country. Whether this desire is sincere or whether political aspirations predominate is not clear. Wise statesmanship could conceivably steer the country into safe channels and overcome the tension that now exists, but extreme poverty, division and propaganda plus the bitterness engendered by long years of servitude to the Japanese, have brought the Korean nation into a state of mind which can more readily envisage force as a means to an end than less drastic methods. The potentialities of the situation are serious, but not hopeless. It, however, adds strength to the opinion that a Pacific Union is the best means of retaining democracy.

Formosa also appears in the week's news as of increasing importance from the American point of view, in that the island's geographical position could, under certain circumstances, become a potential danger point in the event of any future world war. Formosa has for some time past become the repository of Chiang Kai-shek's last resources both in men and materials, but it is doubtful whether the Formosans as a whole approve of his presence or of his rule, therefore the door is all the more loosely latched against any

### Chinese Currency Markets

Shanghai conditions generally are deteriorating as a result of the blockade and the absence of foreign trade. The new authorities are confronted by labour unrest and industrial paralysis. Evacuation of millions of unemployed people is proposed—a problem of formidable magnitude. Further, it is officially advocated to relocate factories, i.e. to move industries from Shanghai to other areas nearer to raw material supplies, and close down those plants which can only operate if fed by foreign materials. The official exchange market is practically inoperative as there is no foreign trade; the black market is in existence although with due precautions taken, catering to investment needs of those persons who have little confidence in the stability of the People's Bank currency.

Hongkong transacted remittance business with all parts of China. With Tientsin small business only was done; the official rate of the Bank of China in that city was increased from PB\$350 on Aug. 1 to PB\$400 on Aug. 5 and black market rates were some 10 to 15% higher. Some imports into North China, usually via Korea, continue and have to be paid for in

HK\$, and additionally there is some flight of capital from North China.

Remittances to and from Shanghai were also small; personal remittances from here to Shanghai, for support of families in the north, amounts last week to about HK\$120,000. Flight of capital from Shanghai continues but proves difficult. Rates for gold and US\$ transfer to the Colony are now 90 in Hongkong for 100 in Shanghai.

Canton remittances continued to be done in HK\$ at rates of 100¼ to 100½ in Hongkong for 100 in Canton. Besides merchant demand for Canton remittances, inward and outward, there was speculative business in gold and foreign currencies.

Swatow remittances continued to be done at par. Amoy remittances were large at rates of 101 in Hongkong for 100 in Amoy. Business is done in US\$. Overseas Chinese family remittances are routed via Hongkong to Amoy. Temporarily, Amoy's capital flight has ceased.

Silver certificates were circulating in small volume in Canton and its vicinity. Coins and the scrip now quote at par. The Canton government is pursuing a policy of currency stability by selling gold and paying silver coins to the army and civil servants.



possible Communist designs. It is also true that when Canton falls—and there seems little doubt as to its ultimate fate—both Britain and the United States will have to form a common policy with regard to the island. Formosa is at present under the Nationalist Government, but when Canton falls it will not be easy to maintain that the Nationalists can still retain control of the island—the Communists, as the recognised Government of China will certainly claim sovereignty over Formosa.

With these points in mind the efforts of President Quirino of the Philippine Islands with the active participation of the United Nations delegate, C. P. Romulo, to form a Pacific Union as a counterblast to the uncertain future, are being viewed speculatively by the areas directly concerned. It is hoped by the supporters of the plan that the whole of S.E. Asia will join including Hongkong. Such an inclusion would bring the British Government directly into the scheme, and Hongkong's participation would create a role which has never been associated with this island and which would be contrary to her whole political and economic history. It cannot be too often reiterated that Hongkong is first and foremost a trading centre,—any effort in the past to turn it into a military zone has been defeated. Residents here are not politically minded. Presidents may come and governments go in this part of the world, but Hongkong wants one thing and thing only,—the possibility of living peaceably with her neighbours so as to carry on legitimate trade. It would indeed be regrettable should the decision be forced upon the British Government that Hongkong's activities as a trader must be narrowed down to suit political exigencies.

### Hongkong and China.

For the moment, Hongkong merchants are obliged to be patient where trade with China is concerned; indeed it would be hard to find in the history of the Colony when it proved so difficult to get commodities to their destination or to procure supplies for re-export. Until the Communist armies have arrived at Canton and taken over the government of China, no one would venture to prophesy a change for the better, and the trouble is no one can fix a date for this happening.

The position in Hongkong is certainly peculiar. *The Colony is so much a part of China in many respects that it is impossible to think of it in any other connection, yet its incorporation in the British Commonwealth has given it a security, stability and good government hitherto unknown to its distressed neighbour.* It is neutral, but cannot help showing sympathy in regard to the struggle now going on across the border. Its main desire is that the struggle shall soon be over and that a settled government will proceed to give the people of China the peace and happiness they deserve. *The merchant in Hongkong has no other wish than to trade, and he is firmly convinced that this is also the*

*desire of the people in China.* It has been pointed out by various authorities on the subject that China cannot become so heavily industrialised as some other countries owing to an insufficiency of essential minerals, consequently, though much can be done to make the country more self-supporting in many respects, an import trade will always be necessary. When this import trade will start again is anybody's guess.

### The Position in Shanghai.

While Tientsin's trade is reported to be almost normal, all direct transactions with Shanghai are still at a standstill and must necessarily remain so until the port is free again or British warships escort British shipping through the danger zone. Great Britain has naturally shown some reluctance to adopting vigorous measures against the Nationalist "closure", and indeed the complications arising therefrom have to be carefully studied before steps can be taken.

Merchants are, however, pressing for action. It is obvious to them that unless some method of assisting trade is speedily adopted it must inevitably suffer, and perhaps permanently. The British cannot afford to run into heavy losses in any part of the world, and the need for a resumption of communications as well as the reopening of Shanghai to legitimate traffic in order to save commercial interests further loss is sufficiently urgent to warrant a setting aside of all but the most vital considerations.

For some time now foreign firms in Shanghai have been obliged to operate on an emergency basis, being faced not only with a shortage of raw materials, but also with labour troubles and other hindrances as well as with the difficulties caused by basing wages on the cost of rice,—an extremely inconvenient and clumsy method, which at the best can only be recognised as a temporary measure, and which at the worst is a definite and heavy handicap to industry and trade generally. To add to the foregoing is the additional difficulty that much of the money required to cover working expenses has to be drawn from outside China, and as the People's Bank dollar is exchanged at an unrealistically high rate this only helps to add to the general despondency.

It is true that while trade with Shanghai is not possible along the recognised trade routes, merchandise is seeping in by way of Tientsin, Korea and Manchuria, and business is also being done via KMT controlled South China (freely trading with Hongkong) with Hankow, Changsha, Wuhu, and other places inland, though trade along the Yangtze is definitely hampered by the lack of shipping. The whole process is tedious and complicated, but is succeeding to some extent in staving off disaster. Soya beans from Manchuria are supplementing the less plentiful and higher priced rice; vegetable oils and other commodities are arriving, from inland,

—and in return rubber, metals, cotton fabrics and yarns are leaving Shanghai for other parts of China but these somewhat haphazard transactions cannot in any way fundamentally alter the situation so far as Shanghai is concerned, nor can they utilize to the full the facilities of that great industrial city.

It seems that a body of opinion exists in North China that the industries of China proper should be developed in other cities rather than in Shanghai, which would then be used mainly as a port. If this is so, the Nationalist "closure" is aiding the plan by forcing existing works into a state of near bankruptcy, causing thereby such great unemployment that hundreds of thousands of workers have left or are on the point of leaving the city, while Shanghai from being a maritime city is turning towards the interior of China for whatever modicum of trade exists.

Unless definite steps can be taken to protect shipping from the effects of the "closure," it looks as if irretrievable harm may be done to British interests in Shanghai. Merchants of British and other nationalities are sticking to their posts under conditions of extreme discomfort in the effort to save what they can and to get trade going the moment the time is ripe, and they deserve every encouragement for doing so.

### Warehouse Congestion

The godowns in Hongkong are so packed with goods that there is little place for fresh arrivals, and the Port Authorities are worried at the situation. Notice has been given that old stocks unclaimed by their owners, who in some cases cannot be traced, will be taken out of storage and disposed of. This will relieve the congestion to a certain extent, and probably not before it is time, as the storing of goods in unsuitable places is bound to create a danger to health, if not, indeed, to life.

As the Communist troops advance southwards, more commodities will be sent to Hongkong for storage. This creates congestion, even if only temporarily, and new shipments arriving from abroad will also have to be stored somewhere. Some dealers, such as paper importers, are taking the opportunity to request suppliers to delay shipment, but this cannot always be done, especially as merchants do not wish to be caught short when shipping is once more open to Shanghai and the rush begins.

### Difficulties of Paper Importers.

Local paper merchants are going through a very difficult time and are hard hit by the continued fall in the indent price of paper from abroad, in fact, it is estimated that a loss of something around \$6 million has been sustained by importers. While trade between Hongkong and Shanghai was going on, dealers were able to dispose of their stocks easily and even with the tendency to lower rates stocks ordered in April and May at higher prices offered no very great problem, as they promised to melt away quick-



ly under the increasing demand for different kinds of paper from North China.

Then came the "closure" of Shanghai by the Nationalists and the lack of regular shipping to Tientsin, which, combined with the impossibility of using other means of transport in China, cut down trade to a minimum. As if this were not sufficient, European paper manufacturers started additional large cuts in the price of paper, to meet competition from the United States, it was claimed,—and this process still continues, to the confusion of the local dealer, who does not quite see how he is to get out of an untenable situation without heavy losses.

The position is very grave for paper dealers as, even if Shanghai were to be opened for trade tomorrow, the old stocks referred to above will have to be disposed of at reduced prices to meet the competition from fresh arrivals from abroad, and certain suppliers in Central Europe refuse to make any allowance against the earlier contracts. However, negotiations are continuing and it is hoped the suppliers will give way.

#### Trade with Indonesia

Trade between Hongkong and Indonesia has always been very flourishing, especially in cotton textiles and underwear made in the Colony, but restrictions on imports into Indonesia have at times had a hampering effect. Existing regulations governing exchange control are to the effect that Indonesian exporters, who have exported certain categories of native products, are allowed to use a proportion of the foreign exchange proceeds to import foreign goods considered essential to the economy of Indonesia, which permits of a certain amount of elasticity in applying the regulations. Irrespective of the destination of the exported cargo, Hongkong dollar or Straits dollar exchange can always be obtained by Indonesian shippers.

#### S. Korea-Japan Trade

Trade and financial arrangements between the Republic of Korea and Japan were signed on April 23, 1949, by the representatives of the Government of the Republic of Korea and (SCAP) acting on behalf of Japan. The trade plan, which proposes a total volume of US\$78,000,000 during the period April 1, 1949, to March 31, 1950, on both a government and private-trade basis, anticipates Korean exports to Japan of \$29,300,000 and imports from Japan of \$48,700,000. This trade is divided into two categories of commodities. More than half of the Korean exports to Japan under category 1—merchandise which Japan considers essential under the plan—consists of 100,000 tons of rice valued at \$16,000,000. Other principal export commodities in this category include hemp waste, semiminished steel and scrap, graphite, anthracite coal dust, tungsten concentrates, and salted fish.

Japan's exports to Korea under category 1—items which Korea considers essential—are estimated at \$43,000,000. Coal, with an estimated value of \$13,600,000, is the principal export commodity. Other exports in this category include raw silk, cotton manufactures: metal manufactures and machinery, such as steel reinforcing rods, mining equipment, trucks and truck parts, fishing boats, and steam turbine generator plants; chemicals and related products; cement; belting; and cross ties.

The trade plan also stipulates that both countries shall trade equal amounts of items under category 2—imports, which are considered to be less essential. It is anticipated that trade in this category, however, will be relatively small, compared with total trade in category 1. All the category 2 commodities which Korea plans to export to Japan are marine products, of which dried laver constitutes the bulk. Japan's exports in this category are made up of miscellaneous items, such as chemicals, drugs, rice mill parts, printing inks, textile dyes, bamboo, cigarette paper, and medical equipment.

The financial arrangement provides that all trade is to be conducted in terms of United States dollars, on a cash basis, through letters of credit and bank drafts. All transactions are to be consummated on a contract basis with prices to be agreed upon at the time contracts are negotiated. Payment on a cash basis provided for under this arrangement constitutes a departure from the method used under the Japan Open Account used heretofore in Government-to-Government trade between Japan and Korea.

#### Rubber Situation in Indonesia. Korea. Siam

Indonesia:—A new export program was introduced in Indonesia in March. The Government ordered that every exporter must sell at least 50 per cent of his estate rubber to dollar buyers direct. This arrangement alters previous practice in which much of Indonesia's rubber was sent to the Netherlands for transshipment, and thus brought dollars to the Netherlands rather than to Indonesia. The new program assures Indonesia of a fair share of the dollar payments accruing from the rubber trade.

Indonesia's estates in March produced an estimated 14,003 metric tons of rubber, 15 per cent more than the previous month's estimate of 12,195 tons. January production figures were given as 12,298 tons. Indonesian statistics still should be considered as approximations only. At the end of March, the number of estates was reported as 455, those with working factories as 385; area planted, 824,620 acres; area planted now in operation, 592,291 acres.

Total exports in March amounted to 26,341 metric tons, of which 8,835 represented estate rubber and 17,506 tons native rubber. February shipments

were reported as 9,882 tons of estate rubber and 14,358 tons of native rubber, and January shipments as 16,827 tons of estate and 12,030 tons of native rubber. Of the total shipments, the United States received 5,960 tons in March, compared with 5,790 tons in February, and 5,272 tons in January. The Netherlands received 5,603 tons in March, compared with 8,276 tons in February and 13,039 tons in January. The United Kingdom, Germany, Singapore, and Japan received substantial quantities in each of the 3 months. Other countries received smaller amounts in one or more months.

Korea:—The rubber industry of Korea is in an unsatisfactory condition as a result of over production of rubber products, a shortage of raw rubber, and lack of necessary textile components. Production in March 1949 of 1,800 truck tires marked the highest output of tires since the liberation.

Siam:—A major increase in the production and exportation of natural rubber in 1948 over 1947 was significant in contributing to Siam's economic stability. Revised official statistics revealed that the 1948 export total of 95,062 metric tons was more than four times the 1947 export total of 23,636 tons. Of the 1948 exports, 74,677 tons were shipped to the United States, 3138 tons to Europe, and 17,248 tons to the Straits Settlements. Of some US\$80,000,000 gross exports to the United States in 1948, rubber alone accounted for nearly \$26,000,000. Trade sources estimate that 15,000 metric tons of rubber were available in Siam at the end of April.

#### Tea Situation in Java and Malaya

Java:—The year 1948 was characterised in Batavia by numerous difficulties in the tea trade. Producers were greatly handicapped by unrest, which in many areas was accompanied by lack of field labour, by difficulties in purchasing necessary machines, spare parts, and building materials, and by shortage of skilled labour for repair work. Exporters also encountered limited transport outlet to ports, import and exchange regulations, continuous lack of storage space and facilities for "blending," and special packing. Rehabilitation of estates, factories, and buildings, however, is gradually improving.

Export figures illustrate a steady improvement in the recovery and expansion of pre-war outlets, lately arrested in certain directions, however, especially during the last 2 months of 1948, because the strong demand from the Netherlands for the better liquoring leaf and broken grades has forced prices too high to enable or justify other markets competing. This has been favourable for the producers concerned, but for the industry in general it is not a healthy situation.

About 15,432,200 pounds of export qualities of tea from the new production were sold on the Batavia market in 1948. The quantity for sale on the



Amsterdam market is estimated at about 2,755,750 pounds.

Although the Netherlands took the largest portion of the exports, a rather substantial amount went to the United States. This amount would have been larger if the November–December 1948 increase in price had not prevented the sale of better qualities on the market.

**Malaya:**—The area of estates planted with tea in the Federation of Malaya in 1948 totaled 9,516 acres, as compared with 9,732 acres in 1947. Newly planted areas in 1948 totaled 274 acres as against 61 acres in 1947. The reduction, however, was accounted for by areas found during the period to be irrecoverable as a result of damage during the Japanese occupation.

Of the 1948 total planted area, 5,037 acres or almost 53 per cent. were in production compared with 3,627 acres or 37 per cent of the total planted area in 1947.

During 1948, processed tea in the Federation of Malaya amounted to 2,257,619 pounds, or 82 per cent more than the 1,242,285 pounds processed in 1947.

Exports and local sales of processed tea by estates in 1948 totaled 641,804 and 1,447,189 pounds, respectively, as against 108,069 and 885,913 pounds, respectively, in 1947.

Local sales of green leaf tea, which excluded that sold for manufacture as "made (processed) tea," amounted to 665,530 pounds during 1948. No figures are available on local sales of green leaf tea in 1947.

### Thailand Exports

Despite rising prices, depreciating currency, and other unfavourable factors inherent in unsettled internal conditions and the Asian political situation as a whole, Thailand's export program went forward at an encouraging rate. Rice shipments during April totaled 139,971 metric tons, from which foreign exchange accrued in the amount of US\$7,485,900; £3,589,678; and 634,951 Swiss francs. More than 13,000 tons of rice were shipped to Japan with total value slightly in excess of \$2,000,000. Arrivals of rice and paddy in Bangkok, although somewhat below the monthly average for the first quarter, were satisfactory; and stocks at the month's end indicated that future shipping commitments would be met.

Tin-ore shipments in April totaled 876.8 tons, valued at US\$1,366,998. Exports of secondary products to the United States were valued at \$816,220, compared with little more than \$1,000,000 in the preceding month. Among secondary exports, seedlac accounted for \$276,896; precious and semiprecious stones, \$182,336; and wolfram ore, \$99,406.

Although the depreciated baht appeared to be the major factor in the expanded export program, particularly of secondary commodities, observers were of the opinion that beneficial

effects of Thailand's revised export duties were becoming noticeable. Thai Government authorities are about to free many other items from export duties and reducing substantially those remaining.

### Motor Vehicles for Indonesia

Indonesia imported 10,895 motor vehicles in 1948, including 5,190 passenger cars, 5,593 trucks and busses, and 112 special vehicles. The principal suppliers were the United States, 3,559 passenger cars and 4,750 trucks and busses; Canada, 666 and 474, respectively; and the United Kingdom, 612 and 280.

### Shanghai Drug & Essential Oils Exports

During the first 4 months of 1949, declared exports of drugs and medicinal through the port of Shanghai to the United States included the following items: Tea waste, 18,000 pounds, valued at US\$1,040; rhubarb, 13,360 pounds \$5,002; menthol, 54,900 pounds, \$374,767; and "Chinese medicines," 2,103 pounds, \$1,506.

Declared exports of essential oils and perfume materials from Shanghai, to the United States during the first 4 months of 1949 consisted of the following commodities: Peppermint oil, 900 pounds, valued at \$3,610; citronella oil, 26,400 pounds, \$23,732; and musk, 84 pounds, \$10,939.

### Nux Vomica Exports from Indochina

During 1948, 427 metric tons of nux vomica were exported from Indochina, 289 tons of which, valued at 253,000 piastres, was shipped to the United States. In 1947 exports amounted to 627 tons, including 183 tons valued at 182,000 piastres, to the United States. The slight rise in the 1948 export to the United States was attributed to the fact that orders placed in 1947 were not filled until the following year.

Because of the relatively high export price, 1.10 piastres per kilogram, f. o. b. Saigon, merchants state that they are experiencing difficulty in selling nux vomica seeds to the United States, a market understood to be more easily supplied with the Indian product.

The main source of nux vomica continues to be Cambodia. There is known to be a plentiful supply with reasonably high strychnine content, although no production figures are obtainable. Supply is governed almost entirely by the demand. The seeds are gathered easily, and, because of the large quantity available, cultivation problems are not important.

### Malayan Bauxite

Canadian, British, and Australian aluminum companies were actively engaged in prospecting for bauxite in the Federation of Malaya during 1948. Although it has not been possible to determine the extent of the deposits discovered by various companies, it is believed that substantial deposits of highgrade ore have been located in

Southeastern Johore. If such deposits prove worthy of extensive mining operations, it is understood that there will be little opposition from the native ruler as to the issuance of mining leases.

There was no bauxite production in 1948 and production in 1949 is unlikely.

### Foreign Trade of Far Eastern Countries

Merchandise trade of Far Eastern countries in 1947 and 1948 (millions of US\$):—

	1947	1948
China: exports .....	230.6	170.4
imports .....	649.5	229.2
(incl. Unrra)		
Japan: exports .....	173.6	258.6
imports .....	526.1	682.6
Korea: exports .....	5.0	8.9
imports .....	190.9	189.0
Hongkong: exports ..	306.5	398.7
imports .....	390.4	398.2
Siam: imports .....	95.3	180.0
exports .....	112.6	130.0
Malaya: exports .....	608.8	810.6
imports .....	642.9	839.6
Philippines: exports ..	265.5	324.9
imports .....	511.4	518.8
Indochina: exports ..	56.2	93.2
imports .....	127.2	187.5
Indonesia: exports ..	128.8	395.2
imports .....	285.3	438.7

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### HONGKONG COMMODITY MARKETS

#### Cotton Piece Goods

Had it not been for increased demands from buyers from Canton, the piece goods market would have been more or less stagnant. So many markets notably Indonesia, have restricted imports in order to encourage their local manufactures, that the Hongkong exporter in hard put to it at present to find an outlet for his goods. The arrival in shortly expected from Japan of printed fabrics totalling 200,000 yards, the bulk being in lengths of 30 yards by 28 inches in width; a brisk local demand exists for these materials and indentors are anticipating a good profit on the consignments: quotations for forward delivery opened at \$1.60 to \$1.65 per yard, rising to \$1.70.

Grey sheetings, filling Canton requirements, rose in price: Mummth Bird, which stood at \$45 per piece at the opening of the market, sold at \$45.50. Bellman rose from \$43.50 to \$44, but dropped again to \$43.50. Peacock rose from \$43.80 to \$44.10, but fell later to \$44 per piece; other brands also showed an improvement. Black cloth showed fluctuations, but generally closed at lower rates: Yu tai, which opened at \$46.50, fell to \$44 but closed at \$45.50 per piece; Hing Fung, which stood at \$58, fell to \$57 but increased again to \$58; Golden Cap opened at \$54, rose to \$55 and fell to \$53. White cloth, Camellia brand opened at \$46, rose to \$46.50 and closed at \$46, Hsun Liang Yu fell from \$45 to \$44.50 and closed at \$45.50 and \$45.30, Tsing Mu Lan started at \$44.50 and rose to \$45.



### Raw Cotton

Demands from Tientsin and Shanghai are urgent for Pakistan raw cotton and a good turnover is being effected of the allocation to Hongkong: old stocks remained stable, 4F quality being quoted at \$1.70 per lb., LSS quality at \$1.80 (nominal) and NT quality at \$1.70 per lb.

### Woolen Yarn

Around 30/40,000 lbs. of assorted brands of woollen yarn have arrived from Great Britain, Australia and the Netherlands; these large arrivals, coupled with a slackening of the demand from Canton, caused a fall in prices, although even at the lower rates a profit could be made: Sheep Head brand sold at \$9 per lb., Butterfly Flower brand at \$9.50, and Pavilion brand was quoted at \$10.50 for forward delivery.

### Metals

With restrictions upon imports of metals generally into Tientsin, the lack of transportation from Canton into central China, and the higher prices ruling in some lines in Hongkong compared with the Canton market, business was generally dull during the week. About 100 tons of Japanese galvanized steel sheets, thin, was placed on the market bringing prices down: 3'x7" was offered at \$9.00, with buyers counteroffering \$7.60 per piece, British 3'x6" fell to \$7.20 and Belgian 3'x7" dropped to \$8.50; later, with the possibility of despatching shipments to North China business in Japan sheets became brisk: 3'x7" G30 was offered at \$8 but sales were concluded at \$7.90 per piece. Sales were recorded of mild steel plates, but without greatly affecting prices: British 3'x6" 1/32" were offered at \$66 per picul, 1/16" at \$48, 3/32" at \$47, 1/4" to 5/8" at \$44. British galv. steel plates 4'x8" 1/8" showed activity, selling at 75 cents per lb. Buyers from North China were in the market for Japanese galv. corrugated roofing iron sheets and prices rose: 3'x8" G26 improved from 67 cents to 71 cents per lb., G28 being low in stock rose to 78 cents, G24 stood at 71 cents, while 3'x9", not being much in demand, fell from 63 to 56 cents for G24. Little interest was shown in zinc sheets, which in Canton fell to around \$110 per picul for all specifications; in Hongkong prices were: G4 \$118, G5 \$108, G6 \$96, G7-G8 \$110 per picul. Japanese brass wire was bought up to fill Tientsin requirements, but with no immediate prospect of making shipment, prices weakened: G8 to G14 was offered at \$175 per picul, G14 to G16 at \$180 and G19 to G22 at \$190; British brass wire G24 stood at \$260. About 1 million metres of U.S. tungsten wire of .74, 1.25, 1.50, 2.40, 3.50, 4.50, 5.50 and 6.50 qualities were offered for forward sale at \$0.038 per metre; in spite, however, of being required by electric light bulb factories and other plants in Tientsin and Shanghai, no great turnover of the present shipment took place, buyers being occupied in nego-

tiating for cheaper prices whilst waiting for the next ship to leave for Tientsin. Black iron G18-G24 was offered at \$33 per picul. Canadian and Australian pig lead fell in price to \$100 and \$98 per picul respectively, the demand having fallen off owing to the difficulty of effecting transport into China. Australian white lead ingots with a shortage of spot cargo showed activity and sold at \$105. British tinplate 20"x28" 200 lbs. packing improved to \$115 per cask as compared with the previous price of \$112. U.S. tinplate waste was offered at \$99 and \$98 per cask, later \$100 was asked by sellers but buyers counteroffered with \$95; tinplate waste 2nd quality 3" 6" in 200 lbs. packing improved to \$68 per picul, 3"-10" sold at \$74. Misprint tinplate had forward sales at \$44 per case, white base fell to \$54 but rose later to \$57 and black base dropped to \$43 rising later to \$44 per picul with some activity being shown. Prices for galv. pipes kept firm on the whole: 1/2" sold at 70 cents per foot, 3/4" at 90 cents, 1" at \$1.10, 1 1/2" at \$1.60 and 2" at \$2.25. Black pipes 1/2" were offered at 70 cents per foot, 3/4" sold at 80 cents for 1000 ft. and 1" was offered at 95 cents. Asbestos sheets were in great demand, with falling stocks. Tientsin buyers were in the market for around 30,000 lbs., part of which would be despatched to Shanghai by rail, selling there at HK\$2 per lb. On the local market prices were: No. 201 5/32" was offered at \$1.30 and \$1.45 per lb., 1/16" to 3/32" fetched \$1.40, 3/8" sold at \$1.35.

### Glass

Large stocks of glass, expected fresh arrivals at lower prices, restrictions against importations in the Philippines and Siam, the absence of demands from Foochow and Amoy, and the difficulties of transportation into China, all have contributed to a very depressed state on the local market, with a consequent drop in prices: Japanese 100 ft. 16 oz. dropped to \$21 and 18 oz. to \$21.50 per case, as against \$28 a month ago. European glass has been so reduced in price that it can compete with the Japanese make: French 100 ft. 16 oz. was reduced to \$22, 200 ft. 18 oz. to \$44, no forward business was transacted so that it was impossible to obtain an idea of future tendencies. Belgian 400 ft. 44 oz. x 3/8" thick stood at \$440 per case.

### Vegetable Oils, Ramie, Feathers

The demand from abroad for vegetable oils continues small, though exporters bought at irregular intervals with a view to laying up stocks for possible future requirements. The most interesting item of news was the regular use of air freight for transporting supplies of oil from the producing districts to Canton, around 400 casks are now being transferred daily in this way from Chungking to the southern city. Aeroplanes going to Chungking with official supplies and equipment which are being evacuated from Canton, return loaded with veget-

able oil, a plane being able to carry 20 casks at a time. The cost of the oil in Chungking is only 6 silver dollars a picul. As a result of the arrival of large supplies, the price in Canton fell to \$110 and the local market has followed suit: woodoil (tungoil) with export permit fell to \$114 per picul, as against \$149.50 at the end of July, and without permit was quoted at \$143 but without sales; teaseed oil at the opening of the market sold at \$166 per picul for a quantity of 800 drums, but later fell to \$164 for 420 casks, the price in Canton being \$130; rapeseed oil, which has been without orders from abroad for some time, sold at \$113 without export permit.

Enquiries for 5000 tons of cassia whole (from Tunghing in Kwangtung) were received from America at the rate of US 12 cents per lb. c.i.f., or HK\$96 per picul. Sales were recorded in the local market at \$74 per picul, which showed no profit; however, the closing price was \$77 and it was anticipated that rates would rise to \$80 shortly. Shek-on cassia whole sold at \$190 per picul and was later offered at \$195 but without acceptance, at the close of market the price fell to \$188 per picul. Cassia lignea, West River, Kwangtung, 60 lb. packing opened at \$41 per picul, but with Indian buyers in the market having been granted import licences sales were effected at the high price of \$52 per picul; no enquiries were received from European firms, consequently no sales were made of the 84 lb. packing, even at the lower price of \$47/\$48 per picul.

Japanese dealers were in the market for Szechuan ramie and Hunan hemp, but stocks in hand were insufficient to fill their requirements transport difficulties having prevented the arrival of fresh supplies. West River ramie was sold at \$160 per picul.

Duck feathers from Siam were in demand, best quality fetching \$256 per picul and second quality \$242.

### Bristles

The bristles market was quiet, merchants not anticipating any considerable transactions before October/November, by which time US factories may be requiring replenishments. With the growing substitution of artificial fibres for natural bristles, it is estimated that there has been a fall of from 20/30% in factory requirements. Under existing conditions, Tientsin exporters are making no efforts to trade. In New York, Tientsin No. 55 short bristles have fallen to US\$5.50 per lb. as against the local price of US\$5.40 (nominal). Chungking No. 27, black, was offered locally at US\$2 to US\$2.05, while the best offer from New York reached US\$2.10. Chungking assorted was offered at US\$1.70 and white at US\$2, with no sales. Chungking, assorted, in bundles, under 2" sold at US 55 cents and fell to US 48 cents on the local market, New York offering US 56 cents to 61 cents.



### Soya Beans and Eggs

About 50,000 bags of soya beans have been despatched to Japan in part fulfillment of requirements, and the market improved in anticipation of the need for further supplies. Stocks in hand in Hongkong amount to 10,000 bags. Manchurian first quality sold for \$40 per picul, with the expectation of higher prices; Kam Yuen (Tientsin) first quality rose from \$46 to \$47 per picul.

Tientsin eggs have been somewhat out of favour since it was found that they often arrive in anything but a fresh condition, and Manila buyers who lost around \$200,000 on previous deals are now showing greater interest in eggs from South China. For this reason, a shipment of 5,450 baskets of eggs from Tientsin, each containing 700 eggs, is not expected to fetch more than \$80 a basket. San mei, Kwangtung, eggs rose to \$21.50 per hundred for first quality, while second quality fetched \$17, in response to demands from Manila, a shipment of 100 crates of 1000 eggs per crate having arrived.

### Tea

The civil war in China has had a bad effect upon supplies of tea from Hunan, Hupeh and Fukien. It has been estimated that the output of tea in Hunan and Hupeh has reached 20,000 piculs of black tea and 3,000 piculs of green tea, but shipments to Hongkong have only amounted so far to 500 and 300 piculs respectively. From Fukien new supplies of teas like Oolong,

Ching Wo Congou and Ponyang Congou are entirely absent from the local market, though recently a total of over 1,000 packages of Hysan/tea has been received, which is quoted at \$220 to \$300 per picul. This has found a good sale, it being found profitable to mix with green tea for re-export abroad.

As a result, merchants have turned to Formosa for supplies of tea, and recent imports into Hongkong have reached 20,000 piculs. Such supplies, however, have not proved very profitable for re-export abroad, as prices in Formosa are almost as high as those ruling in Hongkong, so that local merchants have been reluctant to use this source of supply to its full extent. As far as Formosa is concerned, tea ranks second only to sugar for export; for lower grade tea South East Asia is the best market, and tea bricks also made of lower grade tea go to the U.S.S.R. The higher grades go to Europe, the United States, and Egypt, and fresh markets are being sought. Hongkong, therefore, does not rank very high as an exporting centre for Formosan tea.

Pao-chung tea (new crop) 1st quality was offered at \$260 per picul, black tea at \$240, Broken Orange Pekoe black tea 1st quality also fetched \$240, 2nd quality was offered at \$210/\$220 (nominal), and lower quality at \$200, while the cheapest Orange Pekoe black tea good quality was quoted at \$200 and medium quality at \$180 per picul.

### Sugar

Apart from shipping large quantities of sugar abroad, Formosa also sends considerable amounts to Singapore, Siam and Burma through Hongkong, but local merchants are finding this business increasingly unattractive on account of high prices in Formosa. Local spot sugar for export is quoted at present at \$43 per picul, whereas the price in Formosa works out at \$50 c.i.f. Hongkong. Dealers consequently are holding back in the hope that higher prices may materialise abroad.

Meanwhile 8,000 bags of sugar Formosan granulated have been exported to North China and negotiations are in hand for another 10,000 bags, but shortage of shipping is a handicap. Supplies of sugar in Hongkong amount to 50,000 bags.

### Potatoes

The new alignment taking place over various commodities now that trade with North China is proving so difficult, is shown in recent importations of potatoes, those from Australia having almost taken the place of those from Tientsin. Sufficient shipments have been received to allow of re-exports to Indochina after satisfying local requirements. Prices have fallen to \$40 and \$50 per picul from \$80 a month ago; red peel and small varieties are quoted at \$23.30, large size are \$26.50 and white potatoes are \$28 per picul.



## Camphor

A considerable demand exists in Australia and South Africa for Fomosan camphor tablets. In Hongkong the TC brand in boxes of 64 pieces sold for at \$3.60 per lb., an increase over the previous price of \$3.20. Large stocks of camphor powder (Fomosan) are held in Hongkong, this being disposed of to local factories to make up into tablets at the price of \$2.80 per lb. Japanese camphor Fan brand in tablet form is higher in price than the Fomosan product, selling at \$3.80 per lb., while in powder form the price is \$2.30.

## Industrial Chemicals

No change in the export situation as far as China is concerned and consequently prices remain on the easy side. For a few weeks the market should remain quiet as no stimulating factors are expected.

*Potassium chlorate.* 50 kg wooden case Sweden origin about 62c per lb. As fresh shipment continues to arrive, the consumers wait for a lower price. A Russian product packed in 50 kg wooden barrels of faint pink color about 95% pure (in general, the superior quality is of minimum purity 99.5%) is offered at 50c per lb; buyers show no interest.

*Citric acid.* Since crystal form went to \$2.50 per lb, some exporters thought that they had better sell their stock (ready for export) in Hongkong than export, therefore the market became easy. It is now about \$2.10 per lb.

*Potassium bichromate.* For the whole week market was dull. The shipment from U.K. due Hongkong in late September will be on offer for 5 cwt barrels about \$1.02 per lb.

*Soda ash.* Crescent brand 90 kg bags dense sold \$39 per bag. Crescent brand 70 kg bags light grade about \$29 per bag but due to the stock being scarce, no large business was done in spite of merchants wishing to buy several hundred bags. The France origin 100 kg burlap bags light grade is about \$32 per bag. The USA origin 100 lb paper bags dense sold \$19 per bag. Local consumers prefer the USA dense grade as it is pure white in color and entirely soluble in water without turbidity.

*Sodium bicarbonate.* Crescent brand 100 kg burlap bags at the beginning

of last week was again up to \$42 per bag, as at that time the stock was short. At the week end ICI received a new shipment and the market was expected to be levelled off. However, it cannot be anticipated to be much lower as the ICI selling price has been fixed at \$38 per bag for many months.

*Zinc oxide.* Market firm. Japan make 50 kg wooden barrel with export permit sold 71cts. per lb, same in iron drums short in stock. 50 kg wooden cases Japan make without export permit around 65cts. The Belgium origin 50 kg paper bags sold 64cts. per lb.

*Ammonium chloride.* As the stock of 1 cwt bags Australia origin is now exhausted, buyers turn to 1.5 cwt bags of English origin. Big business for the 1.5 cwt bags was recorded from \$575 to \$590 per long ton. As the sowing season for winter crop is approaching, the consuming time for fertilizer opens. Unless the fertilizer price comes down, the price of ammonium chloride will rise, as up to now it is much cheaper than ammonium sulphate. Furthermore, the stock of Poland origin 250 kg wooden barrels is short, all buying interest will be towards 1.5 cwt bags. The present selling price is still below the sellers' indent price.

*Glacial acetic acid.* Big business has been done in the 45 lb carboy Dutch origin at 84cts. to 85cts. per lb. It shows a further decline compared with two weeks ago. Demand is rather heavy, shipments are on way to Hongkong.

*Glycerine.* Only small business was done at \$1.98 per lb for the Dutch origin 250 KG drums.

*Sodium silicate.* ICI Pyramid brand 750 lb drums sold \$145 per drum.

*Red lead.* 560 lb wooden barrels Australia origin sold \$120 per picul. There is a new shipment of English origin 550 lb barrels at the same price.

*Caustic soda solid.* 700 lb drums from USA around \$156 per drum.

*Bleaching powder 35%.* Red heart brand 50 kg drums sold \$28.50 per drum. Crossed straps on lids 1 cwt new drums sold \$25.

*Bleaching powder 70%.* Japan origin 50 kg drums about 60% chlorine sold 75cts. per lb.

*Ferric chloride.* It is extensively used in photoengraving. 1 cwt black drums from U.K. was sold 48½cts. per lb, but the same quality and packing but the drums painted red was sold 52cts. lb.

*Borax.* 100 lb paper bags granular form USA origin sold at \$22 per bag. The 112 lb burlap bags crystal form sold \$38 per bag. There was a distress lot of 112 lb granular form USA origin sold at \$16 per bag, as this lot was somewhat stained by water.

*Ammonium bicarbonate.* ICI 50 kg drums sold \$40 per drum, 100 kg drums sold \$79.

*Calcium carbonate.* Japan origin 60 kg burlap bags heavy grade sold from \$250 to \$260 per metric ton. The 50 lb paper bags USA origin is about \$400 per short ton.

*Phenol.* 448 lb drums Australia origin from 98cts. to 96cts. per lb. About one hundred drums were sold last week. If the market is not supported by exporters but mostly by speculators its long term outlook is unfavourable.

*Rosin.* Kwangtung produced distilled grade 1st quality sold \$31.50 per picul.

*Red amorphous phosphorous.* France origin Lion and Fork brand 110 lb cases sold \$285 per case. The 100 lb metal drums USA origin is about \$220 per drum. Japan origin 10 x 5 kg tins to one case about \$205 per case.

*DPG.* English Monsanto 150 lb metal drums sold \$2.03 per lb.

*Vaseline.* Snow white 375 lb drums sold 41cts. per lb.

*Sulphur.* Lump form is about \$23 per picul.

*Nitric acid.* 80 kg carboy Dutch origin sold 60cts. per lb.

*Sulphur black.* 693 brand 100 catty drums sold up to \$265 per picul.

*Menthol.* Crystal "White Bear" brand is about \$74.50 per lb.

*Chromic acid.* 100 lb drums flake form went up to \$2.55 per lb. Indent price is less than \$2.

*Paraffin wax.* AMP 160/165 nine slabs to one carton is about \$95 per picul.

*Bronze powder.* Japan make 20 x 5 lb packet per case was sold \$2.80 per lb.

*Acetic Anhydride.* 480 lb drums USA origin was sold \$1.30 per lb. Several lots cannot be sold even at \$1.15 per lb.

*Red iron oxide.* 50 lb paper bags USA origin sold 92cts. per lb only.